

**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 20, 2022, 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)
Reid Yamashiro (Deputy Corporation Counsel & Committee Member designee for Corporation Counsel (COR) Dana Viola)
Alison Look (Acting Internal Control Chief Accountant & Committee Member designee by Managing Director Michael Formby) (by webex)
Nola Miyasaki (Department of Human Resources (DHR) Director & Committee Member)
Chase Masuda (Committee Member)
Michael Golojuch (Committee Member)
Douglas Chun (Committee Member) (by webex)

Staff: Laura Shimada (Deferred Compensation Plan Committee Administrator & BFS Administrative Services Officer) (by webex)
Carrie Castle (BFS Deputy Director)
Lynn Wakatsuki (Deputy Corporation Counsel)
Florencio “Bugs” Baguio, Jr. (DHR Assistant Director)
Jennifer Tobin (Chief, DHR Benefits, Research, and Transactions Branch)
Jennifer Bishop (BFS Administrative Specialist) (by webex)

Guests: Bill Tugaw (NFP Retirement (NFP) – Managing Director)
Vince Learned (NFP – Senior Plan Advisor)
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)

Andrew T. Kawano (Chair) agreed to allow committee members Douglas Chun (Doug) and Alison Look (Alison) to participate remotely due to concerns over COVID-19. Doug and Alison both participated remotely from their respective offices with no one else present. Chair also stated that he has allowed Deferred Compensation Plan Committee Administrator, Laura Shimada (Laura) and any other Voya or NFP staff to participate remotely.

I. CALL TO ORDER

With quorum present Chair called the meeting to order at 9:33 a.m. and presided as chair of the meeting. Laura acted as secretary of the meeting.

II. MINUTES OF PREVIOUS MEETING – Action

Committee members reviewed the February 18, 2022, Quarterly Meeting minutes and Chair asked for any discussion.

On a motion duly made by Reid Yamashiro, seconded by Michael Golojuch, and unanimously carried, the Committee approved amendment of the February 18, 2022, Quarterly Meeting minutes to correct the spelling of the name of BFS Deputy Director Carrie Castle.

On a motion duly made by Michael Golojuch, seconded by Nola Miyasaki, and unanimously carried, the Committee approved the amended February 18, 2022, Quarterly Meeting minutes.

III. PUBLIC COMMENTS – Information

Chair asked if there was any public input. No one wished to speak.

IV. VOYA REPORT – Information/Action

A. Quarterly Report – Deirdre Jones (Deirdre) provided the following highlights for the first calendar quarter of the year, ending on March 31, 2022.

1. Client Health Review

- a. Plan Statement – The quarter closed with over \$920 million in assets. Assets are up \$46 million when compared to the prior 12-month period, but down from the fourth quarter of 2021.
- b. Participation – The number of participants remain fairly consistent at 85%. The breakdown of participant accounts based on age group show that those closer to retirement have the greatest amount of participation.
- c. Deferral Summary – The average deferral rate benchmark is at 6.9% and the City's plan is well over at 9.2%
- d. Participant Engagement – Most participants interact with Voya through the internet and mobile application. One enhancement that Voya has made is allowing participants to use a chat box feature when using the website. The chat box allows participants to type in a question and the intelligence feature will respond to the question or direct the user to a resource or representative. If handed off to a representative, the chat history is provided to the representative. This feature is available post login, after the participant is

authenticated, which allows the participant to receive information such as their account balance.

2. Plan Activity

- a. Transactional Activity Detail – The first quarter had a slightly higher increase in distributions, close to \$16 million. There were more hardship withdrawals than there were in the past. Deidre noted that the same is being seen across the board with their other clients as well.
- b. Contribution Summary – Starting to see an increase in participants utilizing the Roth feature. As individuals near closer to retirement, their contributions increase as they take advantage of the catchup provision and other options to supplement their retirement.
- c. Current Participation and Enrollment Statistics – New employees enrollment have an average deferral rate of 7.2%, which is above the government client average of 6.9%.
- d. Participant Balance – The average participant account balance is over \$94,000. Although the benchmark for other government clients is not available, the City's average participant account balance is expected to be consistent with the past and be well over the benchmark.
- e. Distribution Summary – For the first quarter, there was a slightly higher than normal outflow. There were more death claims than there have been in the past, but the majority of the withdrawals were due to the hardships.
- f. Diversification – In February, 2022, Vanguard merged their Institutional class and the name is now the Target Retirement Investor class. Only the name has changed, not the content or makeup of the fund.
- g. Managed Accounts by Morningstar – Almost 6%, roughly \$50 million, of the plan's total assets are utilizing the managed account feature.

3. Plan Investment Review

- a. Total Plan Assets and Contributions by Investment Option – Not considering the Target Date Funds, the fund being used most is the Stable Value Fund, representing almost 17% of the plan's total assets, with the American Funds Growth Fund of America coming in next at almost 14%.

Doug asked for a breakdown of participants that are utilizing the 50+ catch-up and the special catch-up provisions. Deirdre will follow up and send to the Chair statistics on how many participants are eligible and how many are taking advantage of the catch-up provisions.

[NOTE: After the meeting, Voya reported that there were 2,322 employees who are eligible to participate in the 50+ catch up provision. There are 405 participants, excludes individuals with a terminated status code as of 12/31/21, currently making catch up contributions and of that group, 282 were making special catch-up contributions. Approximately 17% of the catch-up eligible population are utilizing the catch-up/special catch-up provision.]

- B. Stabilizer Update – Gavin Gruenberg (Gavin) provided an update Stable Value Portfolio. Gavin stated that market review information in the Committee's packet is dated March 31, and with all that has occurred in fixed income market in the last 60 days, the information is stale. He further noted that the rates have moved up.
1. Fixed Income Market Review – The U.S. 10-year Treasury as of December 31, 2021 was at 1.51% and as of March 31, at 2.34%, and hovering around 3% today, showing a large increase in a short amount of time. As bond rates go up, prices come down. As such, there will be a decline in market value within the Stable Value portfolio.
 2. Performance Analysis – The Portfolio Management Team included a report on the decisions or allocations that were made in the portfolio and its impact returns during the quarter. Much of the results are showing a detraction in performance, such as the allocation to investment grade corporate bonds where the overweight in the sector detracted from performance.
 3. Performance Summary – For the quarter, the portfolio had a -4.88% return, which is close to the benchmark at -4.69% return. For the past 12 months, the portfolio was at -4.10%, which outperformed the benchmark of -4.38%. Looking back further, at 3-, 5-, 10-years, there has been a consistent outperformance by Sean Banai and his team. The fixed income market has been bit unusual in the last 3 to 6 months, but the portfolio is holding up well and performing in line with the benchmark.
 4. Portfolio Characteristics – The Average Quality of the portfolio is AA-, which is close to the benchmark of AA+. The Yield is now at 3.5%, up from 2% as of December 31, 2021. The next calculation to determine the crediting rate for participants may see the crediting rate come up a bit despite the fact that the value of the bonds in the portfolio have come down.
 5. Asset Allocation – Agency Mortgages is up 5.1% from the prior quarter. Commercial Mortgage-Backed Securities, up 1%. Most of which came from the cash position in Treasury.
- As of April 30, 2022, the Market Value was \$167.89 million and the Book Value was \$178.5 million, leading to a Market to Book ratio of 94.01%. As

of yesterday's close, the Market to Book ratio was at 93.8%, which is not unexpected. With the rates are moving up, there may be better crediting rates for participants going forward. In calculating the rate that the participants receive, the system is designed to bring the ratio back to 100% over a span of four to five years. The ratio may come back to par quicker if the markets return, rates come down and prices come back up, but it is designed to return over time.

- C. Participant Communication & Education Update – Gavin explained that personalized messages are targeted messages sent to specific populations within the plan based on predicative analytics engine and are delivered by email or text messages to participants who have opted in to e-Delivery.

1. Personalized Messaging

- a. Save More Results – This campaign targets individuals that have not made a contribution change in six months and was sent to about 2,600 participants in the plan, 255 of which took action.
- b. Beneficiary Results – This message was sent to 146 participants that do not have a beneficiary on file, with 12 participants taking action after receiving the email.
- c. Diversification Results – This message went to 639 participants that the system identified as not being diversified and resulted in 22 taking action.
- d. Restart Savings – This campaign is sent to 361 individuals that were previously saving in the plan but have stopped contributions. As a result, 2 participants started saving an average of 7.5% and 10 started saving an average of \$168 per pay period.
- e. Financial Wellness/Education – There were over 4,000 individuals that received this message, about 70% opened the email, with 15% clicking through the message and 2% completing the Financial Wellness Assessment.
- f. Birthday – This is a newer campaign delivered on the participant's birthday as a reminder to think about retirement and personal savings rates. 57% opened the email and 15% took action.

2. Participant Engagement

- a. Web/Mobile/ Call Center – 9% of all engagements are from the Call Center, 16% from the Mobile Application, and 36% are from the Web. 45% of participants have opted into e-delivery, which is up from 35% at the end of last year.
- b. myOrangeMoney – Monthly retirement income tool available on the mobile app and website. Over 4,000 participants logged in the website or mobile app of which 73% in viewed myOrangeMoney. 34% of those who viewed MyOrangeMoney engaged with the tool and 20% took action after using the tool. 42 participants are saving an average of 1.3% more and 153 participants saving an average of

- \$94 more per pay period. 48 participants changed a fund allocation, 1 enrolled in a managed account and 2 rolled money into the plan.
 - c. Personal Financial Dashboard – This is a holistic planning tool available on the website. 76 participants used the dashboard and 29 created an action plan with 4 taking action.
 - d. Personalized Video – Similar to the automated messaging, this video is targeted based on the audience. 165 participants viewed the video, 62 clicked on the call to action and 9 took action after viewing the video.
 - e. Financial Wellness - On scale of 10, participants feel about an average of 6.3 about their current financial situation, which is the same average as Voya's book of business. 53% have a finance confidence of 7 or more. Participants are asked about protection (insurance), spending and savings habits, emergency funds, retirement, debt, and other financial goals. The participants are less confident in protection and more confident in debt compared to Voya's book of business.
3. Communication Strategy and Results – Gavin covered the 2022 campaign schedule.
- a. New Year Checklist Campaign – This campaign was sent in February to encourage participants to give their account a checkup, opt in to e-delivery and add a beneficiary. It was emailed to 2,846 participants, 61% opened the message, with 38 unique clicks.
 - b. Catch Up Campaign – This campaign was sent in April to remind participants who are age 50 and older to maximize their contributions by taking advantage of the catch-up contribution feature. The results of this campaign will be reported next quarter.
 - c. e-Delivery – This campaign was mailed in April to encourage participants to access their accounts online and opt in to e-Delivery. The results of this campaign will be reported next quarter.

Chair asked why the New Year Checklist campaign was not mailed to participants like the e-Delivery campaign. Gavin responded that he couldn't remember why it wasn't done but it can be added for the 2023 campaign.

[NOTE: After the meeting, Voya reported that this communication was delivered via email because it was considered a standard electronic communication. Voya also noted that Stacey provided Jared with a pdf version to use for printing or as a handout. Voya also said that as we look to get more participants signed up for e-delivery, communications such as

this will have a broader reach. Voya suggesting discussing specific communications for those not signed up for e-delivery so that messaging is consistent between both groups.]

Bill asked whether the stats include interactions from the local office. Jared Nakamoto (Jared) stated that his office captures some data and they will usually see an uptick in activity after these campaigns are sent. As an example, after the e-Delivery campaign, participants called Jared's worried that it was part of a fraud scheme. Jared's team was able tell them that registering their account online and signing up for e-Delivery was for security purposes to protect against fraud. Jared also stated that with COVID-19 restriction easing, his team are starting to hold in-person meeting with departments again, which is better than holding virtual meetings with participants.

On a motion duly made by Michael Golojuch, seconded by Reid Yamashiro, and unanimously carried, the Committee accepted the Voya Report as presented.

D. Other Issues –

1. Chair asked Voya to provide an update on the \$500,000 return to participants. Gavin stated that participant balances as of April 30, 2022, are being used to calculate the pro rata allocation each participant will receive. On July 1, 2022, the 30-day advanced notice will be mailed to participants announcing the return. During the week of July 25, 2022, the Voya will receive an ACH from the City, and on August 1, 2022. Voya will make the deposits into the participant accounts.
2. Doug commented that the 14% action rate on the Save More campaign for the most recent year was a phenomenal rate and encouraged Voya to keep it up. Doug asked if this was the highest action rate for the Save More Campaign ever. Gavin stated that he will find out how the action rate lines up historically as this campaign has been done in the past.

[NOTE: After the meeting, Voya confirmed that the 14% action rate is the highest when compared to governmental plans which have an action rate of about 11%.]

V. NFP CONSULTING REPORT – Information/Action

- A. Understanding the Investment Policy Statement and Scorecard – Vince Learned (Vince) provided the following highlights on the market review:
 1. Quarter 1 Market Review - U.S. Equity markets were down 5.3%, International Equity was down 5.4%, and Fixed Income was down 5.9%. As of May 6, 2022, U.S. Equity was down 14.2%, with growth

down 21.3% and value down 5.7%. Historically, value outperforms growth in rising interest rates environments. International was down 14.1% and Fixed Income was also down 10.5%. Commodities are up about 31.6% and oil is up 55% through May 6, 2022. From a participant perspective, recessions last 15 months and bear markets last about 10 months on average. The U.S. labor market dropped to 3.6% in March.

2. U.S. Equity – Large Cap Value was down 0.7% for the quarter and Small Cap Growth was down 12.6%. On a relative basis, it's been seesawing between growth and value. Energy is the only exception, up 39.1%, but the 10-year performance is 3.5% which is the worst performance of the sectors.
3. International Equity – Similar to U.S. Equity in that value outperformed growth. Large Cap Value up 1.3%, Large Cap Growth is down 11.4%. Emerging Markets is second to the last at -7%. Developed International Markets continue to outperform the Emerging Markets and Domestic continue to outperform International.
4. Fixed income – Yields are up across the board but begin to converge. From the 5-year mark on, there is a relatively flat yield curve.
5. Inflation and the Fed – Inflation as measured by CPI was at 7.9% in February, 8.5% in March, and 8.3% in April. The Federal Reserve implemented a 0.25% rate hike to combat inflation, and 2 weeks ago they raised rates again by 0.50%. When the 2-year yield rises above the 10-year yield, it creates an inverted yield curve phenomenon, which is a good indicator of a looming recession. As of today, there is a 22 basis point spread between the two. Quarter 1 GDP was down 1.4%. The traditional definition of a recession is two consecutive quarters of negative GDP.
6. History Points – Vince covered a history of the volatility effect of geopolitical events and noted that the average duration to recover is 137 days, and if the outlier is removed, then the average number days to recover would be much lower.
7. Annual Returns and Intra-Year Declines – In looking at the past 42 years, there tends to be a big variance between the entry year low and where the market finishes for that year. The market recovered and finished in positive territory in 32 of the 42 years.
8. Investment Policy Statement (ISP) – Vince provided a high level overview of the Investment Policy and Procedures Statement dated August 2015. He explained that this document is the roadmap for how investments are evaluated, and includes the overall philosophy, option categories, how funds are selected and the standards used. The ISP is incorporated into the scorecard methodology. The ISP also sets the standards for the disclosure of fees, commissions and charges, as well as communication and education. Every few years, NFP will consider

any changes in regulations, legislation, or industry best practices and determine if the ISP should be revised. Recommended revisions are then submitted to the Committee for review and consideration.

9. Scorecard – Vince explained the scorecard methodology for Target Date Funds, Asset Allocations, Active, and Passive Strategies. Every year, the Investment Committee conducts 250-300 manager due diligence meetings. When a fund is scoring well and looking good qualitatively, the best ideas go onto a focus list for every major asset class. The focus list is updated every quarter and is used to draw change recommendations. The funds have gone through an extensive vetting process before being brought to the Committee for consideration.

B. Semi-Annual Fund Review – Vince reviewed the scorecard for funds in the City's plan with the following highlights:

1. American Funds Growth Fund of America R6 scored a 6 for the fourth consecutive quarter. There are risk return points lost, the reason large cap growth managers are missing risk return points is the concentration where a handful of names (Apple, Microsoft, Amazon, and Google) account for close to 36% of the index. The four names sum to more than 25% and have had phenomenal returns, which makes it hard to outperform in this unusual environment. This fund should remain on the watch list.
2. Virtus Ceredix Mid-Cap dropped from a 10 to a 7, which is an acceptable score. This fund had narrow misses on the risk return points and is not a concern.
3. Principal Midcap Institutional – This fund improved from a 5 to a 7 last quarter and maintained the score of 7 for this quarter. It is also narrowly missing the Information ratio rank and the style point. The reason it is being recommended to remain on the watch list is because of the score of 5 in Quarter 3 of 2021. For a fund to be removed from the watch list, it will need an acceptable score for 4 consecutive quarters. This fund should remain on the watch list.
4. American Funds Europacific Growth Fund – This fund scored a 6 for the second consecutive quarter. This fund has been a long time performer despite the 6. This fund is exposed to the emerging markets and is overweight. This fund should remain on the watch list.
5. American Funds Capital World Growth and Income Fund – This is a global equity fund. This is the second consecutive quarter the fund scored a 6. This fund is underweight U.S. Equities versus the benchmark. This fund should remain on the watch list.

Plan Allocation by Investment Type – There is 44% in various U.S. Equity funds, 25% in Asset Allocation, which consists of the target date funds and

the risk based funds, 19% in Specialty or cash equivalent, 8% International/Global Equity and 4% in Fixed Income.

- C. Watch List Update – NFP’s Summary of Consideration recommends that American Funds Growth Fund of America R6, Principal MidCap Institutional, American Funds Europacific Growth, and American Funds Capital World Growth remain on the Watch List.

On a motion duly made by Nola Miyasaki, seconded by Michael Golojuch, and unanimously carried, the Committee accepted and approved NFP’s Watch List as listed in the Summary of Considerations.

- D. Legislative and Regulatory Update – Bill Tugaw (Bill) reported that the current version of Secure Act 2.0 removes the first of the month rule and adds another catchup provision for age 62-65 for an additional \$10K, as well as matching strategies on student loans. This bill passed the House of Representative almost unanimously, with only 4 votes against it. Senators Portman and Cardin are working on the companion bill. If the Senate passes the bill, a conference committee will be formed to work out the differences before sending to the White House.

Bill also reported that the Department of Labor (DOL) has cautioned against allowing crypto currencies as an investment into a plan due to the risk and lack of a track record. Fidelity then announced it would allow 20% investment in cryptocurrencies. As a result, DOL may issue stronger guidelines relating to cryptocurrencies.

VI. OTHER BUSINESS – None

VII. REPORT ON ADMINISTRATIVE EXPENSES – Information/Action

Laura reviewed the quarterly expense report. The quarter started with a balance of \$572,447.48. Voya’s reimbursement of \$43,750 for quarter 4 was received and expenses totaling \$15,554.80 for NFP’s Consulting Service payment, the refreshments for the annual meeting and the NAGDCA 2022 Conference Registration for Michael Golojuch, Chase Masuda, Nola Miyasaki, Lynn Wakatsuki and Laura Shimada. The ending balance is \$600,642.68.

On a motion duly made by Michael Golojuch, seconded by Reid Yamashiro, and unanimously carried, the Committee accepted and approved the Committee’s administrative expenses report as presented.

VIII. EXECUTIVE SESSION (as required)

The Committee did not go into Executive Session.

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

457 University Training – FMB 10th Floor
Thursday, August 25, 2022, 9:00 a.m. – 3:00 p.m.

Third Quarter – Mayor’s Conference Room
Friday, August 26, 2022, 10:00 a.m. – 12:00 p.m.

Fourth Quarter – Mayor’s Conference Room
Friday, November 18, 2022, 9:30 a.m. – 12:00 p.m.

X. ANNOUNCEMENTS

Laura announced that with the help of Stacey Laxton of Voya, the Committee submitted a nomination for a NAGDCA award in Participant Education and Communication.

XI. ADJOURNMENT

There being no further business, the meeting was adjourned at 11:13 a.m.

Respectfully submitted,

Laura Shimada
Secretary