

**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 26, 2023, at the Department of Human Resources (“DHR”) Conference Room located at 650 South King Street, 10th Floor, Honolulu, Hawaii 96813.

Present: Andrew Kawano (Department of Budget and Fiscal Services (BFS) Director & Committee Chair)
Florencio “Bugs” Baguio, Jr. (DHR Assistant Director & Committee Member Alternate for 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)
Reid Yamashiro (Deputy Corporation Counsel & Committee Member Designee for Corporation Counsel Dana Viola)
Chase Masuda (Committee Member (Active))

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)
Vince Learned (NFP Retirement – Vice President, Advisory Services)
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)
Sean Banai (Voya – Senior Portfolio Manager)
Tony Camp (Voya – Vice President, Stable Value Product Group) (by webex)

I. CALL TO ORDER

With quorum present, Andrew Kawano called the meeting to order at 9:34 a.m. and presided as chair of the meeting. Jennifer Bishop (Jennifer) acted as secretary.

II. ANNOUNCEMENTS

Chair announced the NAGDCA Conference will be held from October 8 – 11, 2023 at the Hyatt Regency Hotel Seattle, and up to 7 Committee members and staff will be attending this important conference for public sector defined contribution administrators. Chair also thanked

Committee Member Michael Golojuch (Mike) and Stacey Laxton (Stacey) from Voya for volunteering to serve on a break-out panel to discuss our successful approach in communication and participation engagement.

III. MINUTES OF PREVIOUS MEETING – Action

Committee members reviewed the March 10, 2023, Quarterly Meeting minutes and Chair asked for discussion.

On a motion duly made by Michael Golojuch, seconded by John Hashimoto, and unanimously carried, the Committee approved the March 10, 2023, Quarterly Meeting minutes.

IV. PUBLIC COMMENTS – Information

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

V. VOYA REPORT – Information/Action

A. Stabilizer Update – Tony Camp (Tony) provided the following update.

1. Overview – Voya Stability of Principal consists of \$68.6 billion, with \$7.4 billion in the Stabilizer that includes Honolulu's product, \$33.4 billion in Managed Custody and \$27.8 billion in Fixed Account. The ratings for these accounts have stayed the same for the past few years from the three major rating agencies.
2. Market Update – Stable Value Market Assets have grown from \$808 billion at the end of calendar year 2019 to \$936 billion at the end of calendar year 2022. In overall Market Cash Flow, 2022 had a neutral first half and a negative second half. So far in 2023, with short term Treasury rates being higher than long term rates, there is an opportunity for investors to move into money market funds or CDs and retired participants to move in to IRAs, which is likely to continue until the yield curve reverts back to normal and short rates going lower than long rates. Market to Book ratios are a measure of the market value, which is the sum of the assets and bonds backing the stable value fund, and the book value is the sum of the participant balances. When rates move up quickly, the market value drops and book value stays the same, which is the value of stable value. The consequence of the Feds moving rates up is Market to Book ratios have come down.
3. Stabilizer – Tony provided a refresher on how Honolulu's Stable Value is structured. It is a separate account GIC contract that combines an underlying fixed income investment strategy with a group annuity insurance contract. The difference of being in a separate account versus a general or fixed account, is if anything were to happen to Voya's insurance company backing the guarantee, the assets in Honolulu's separate account could only be used to pay the claims and liabilities for Honolulu's participants. Honolulu's guarantee is provided by Voya Retirement Insurance and Annuity Company. The portfolio is managed by Sean Banai and his team at the Voya Investment Management.
4. Crediting Rate Formula – The crediting rate is a feature of the contract, with the formula as found in the contract being used to declare the crediting rate each quarter.
5. Contract Position – As of April 30, 2023, the Market Value for Honolulu's contract was \$164.8 million with Book Value at \$180.7 million, equaling a ratio of 91.2%. The current net crediting rate at 2.5%. The balances as May 31 will be used to perform the index. Tony reviewed the chart of Honolulu's Stable Value historical net cash flow as

compared to the S&P performance. The chart showed a negative correlation between the performance of the S&P 500 and participant investors in stable value funds 2008 and in 2018, which hold trues for a lot of plans. For Honolulu's plan, in 2013 there was good S&P performance and a positive cash flow. 2022 was an atypical year with both S&P performance and cash flow being negative. So far in 2023, there is not the opposite correlation, and Honolulu's plan is having a normal reaction. In comparing the contract values of the separate account with the fixed account, from December 2021 to December 2022, there was a reduction in the separate account balance as a result of the rates moving up. The book value was about the same, but the market value was affected by the Fed's aggressive moves to combat inflation.

6. Debt Ceiling Issues- Chair asked if there has been any news with Congress raising the debt ceiling. Sean Banai (Sean) commented that he believed Congress will eventually come to an agreement and that he is concerned about the downgrade of the portfolio. He stated that Fitch could put U.S. Treasuries in a negative watch if they downgrade to AA. If downgraded, it could cause a liquidity issue. There are some portfolios that have an average trading rate and they calculate based on the treasuries, which will force some to people to sell. Sean explained that his team worked with Tony's group and sent a letter to all the clients stating that if U.S. is downgraded, U.S. government securities will still be treated as government securities, that way no one is forced to sell.
7. Portfolio Review – Sean provided highlights of the Portfolio Review for period ending April 30, 2023. Voya Investment Management has \$323 billion that includes \$181 million in Fixed Assets. Even with the rate set off which brings down the market value, the net flow to fixed income has been very positive. There has been growth in Stable Value and in long credit. Sean noted the years of experience of the Voya Fixed Income team, with almost each member having at least two decades of experience. In 2022, every fixed income security had negative total returns. Stable value is made for interest rate sensitivity, but not default. As the rate goes up and down, the stable value is made to compensate and amortize down
 - a. Fixed Income Market Review – In Quarter 1, the portfolio had mostly positive returns, with some negative excess return. The total return was positive.
 - b. Performance Summary – Year to date, the portfolio is up 3.29% versus the benchmark at 2.98%. The portfolio has done extremely well versus the benchmark, partly due to the strategy change from about 10 years ago.
 - c. Asset Allocation – Agency mortgages, which are AAA assets, are a bit overweight; the yield that they provide, versus Treasuries, is really attractive. The portfolio has a health allocation in asset backed securities, such as auto-loans and credit card loans, which are high quality assets. Delinquency rates have picked up a little bit overall, due to the prepayment rate which has also gone up, and that is a bit of a concern. Inflation usually hits the bottom cohort of income first, then the white color labor force, and then the middle income cohort. If prepayment delinquency picks up in the middle cohort more than the historical, then we would want to position the portfolio to reduce even further risk. For now, this is not being seen. The middle class is still very strong as evident from all the spending, but it is something that Sean's team is watching. The portfolio had about 10% in commercial backed mortgage securities (CBMS) which was reduced to about 4% in the beginning of 2022. We recently added some allocation to CBMS to evaluation. These are high

quality AAA and AA CBMS and have quite a bit of credit enhancements. There is not much exposure to emerging markets, and the high yield corporate allocation has gone down quite a bit. The investment grade allocation is only at 4%; these securities include IBM, Microsoft, Apple, all fixed.

- d. Portfolio Characteristics – Top credit exposures include Bank of America Corporation, Morgan Stanley, J.P. Morgan. The duration of the portfolio is at 4.57. The average quality of the portfolio is AA, which is very good. Yield to maturity is 5.2. As price has gone up, the yield of the performance is going up.

Sean explained that the velocity of money and the credit vulnerability of the market going lower usually correlates with inflation. There are two areas of concern right now; the housing market and labor. The housing market could be subject to inflation. Since 2008 there have not been enough houses built and so the supply is very low. Supply of labor has also gone down with the loss of about 1.5 million participants.

- B. Quarterly Report- Deirdre Jones (Deirdre) provided the following highlights for the quarter, ending March 31, 2023.

- 1. Client Health Review

- a. Plan Statement – The quarter closed with almost \$872 million, which is down from around \$920 million from the same quarter last year. The earnings for the quarter were almost \$42 million.
- b. Participation – There was a slight drop of participants with 99 closing their accounts and 41 new accounts. The participation rate also slightly dropped from 68% at Q4 2022 to 65%.
- c. Deferral Summary – The participants deferring on a percentage basis have a higher deferral rate than both the industry benchmark and other Voya plans.
- d. Participant Engagement – More participants are using the mobile app to check their account balances and process transactions. Voya will continue to look at adding more enhancements, including beneficiary updates. Participants who use the MyOrangeMoney tool have higher deferral rates than those that do not have any web engagement. The information in the MyOrangeMoney tool is critical for individuals to have an understanding of where they need to be and where they want to make adjustments.

- 2. Plan Activity

- a. Transaction Activity Detail – There were positive earnings for the quarter and a negative cash flow.
- b. Contribution Summary – Half of the participants that start contributing to the plan are utilizing the Roth feature, which is a trend not typically seen in other plans. There are now 2,519 total participants that defer on a Roth basis. Jared Nakamoto (Jared) stated that his team is proactively educating new eligible employees about both Roth contributions and conversion. Chair noted that in regards to Roth conversion the ability to buy more shares at a lower rate is attractive.
- c. Current Participation and Enrollment Statistics – Participants who defer on a percentage base average a 9.2% deferral rate. There were 51 new enrollments for the quarter.
- d. Participant Balance – The average account balance was \$89,890 and is trending upwards.
- e. Distribution Summary – There was over \$10 million in withdrawals for the quarter.

- f. Managed Accounts – This will be transitioned to Voya Retirement Advisors powered by Morningstar. As of the end of the quarter, there were about 437 participants using the managed accounts feature of the plan with about \$50 million in assets.
- C. Morningstar Update – Deirdre explained that participants are able to obtain online advice from Morningstar and then decide whether to take the action and reallocate their accounts themselves at no cost or they can have their accounts managed by Morningstar. By the end of the year, Voya will be taking over the experience with Morningstar, meaning that Morningstar will still be the engine powering the advice for managed accounts but Voya will own the actual experience. Morningstar will transition to Voya Retirement Advisor powered by Morningstar. Voya will work closely with the Committee's staff to determine when the transition will occur and how it will be communicated to participants. Fees will not change. The 35 basis points that participants who have opted to have their accounts managed by Morningstar currently pay will remain the same. The online advice is offered at no additional cost. A new contract will have to be signed and a draft of the documents have been provided to the Committee's staff.
- D. TD Ameritrade/Schwab Update – Deirdre explained that TD Ameritrade, the Plan's Self Directed Brokerage option with less than 30 participants and less than \$1 million, was acquired by Charles Schwab and their platforms are merging. Schwab will communicate with participants that are in the TD Ameritrade brokerage option that although the TD Ameritrade name is going away, the holdings will stay the same, and users should experience the best of both platforms with expanded flexibility and investment options. Schwab will also allow for online applications. Although the communication is being driven by Schwab, Voya will be able to provide samples of the communication that will be sent to participants.
- E. Participant Communication & Education Update – Stacey provided the following updates.
 - 1. Save More Results – As of May 1, 2023, there are 14 more individuals saving more based on this communication.
 - 2. Beneficiary Results – The results stayed the same from the last meeting. This communication is sent once a year on the plan anniversary date. A custom communication was recently sent and results will be provided at the next meeting.
 - 3. Diversification – This was sent to an additional 11 individuals.
 - 4. Restart Results – This is sent to anyone who is signed up for eDelivery but has not been saving for more than 60 days, and it was sent to an additional 7 individuals.
 - 5. Financial Wellness/Education – This communication was sent to 46 more individuals and encourages participants to utilize the online tools and take the financial wellness survey.
 - 6. Overall Financial Wellness Messaging – 62% take action after engaging with the emails, which is higher than the benchmark of 45%.
 - 7. Participant Engagement – Overall, the Plan's engagement is high when compared to the benchmark. 54% participants have completed the web registration compared to 39% for the benchmark.
 - 8. MyOrangeMoney – There was a slight increase with 2 more individuals taking action after receiving the email.
 - 9. Personal Financial Dashboard – There was a significant increase from the last time. There was a 10% action rate compared to just 2% from before.

10. Catch Up Campaign – This campaign was sent to over 2,300 participants in January and had 66 unique clicks, or 6%, and mailed to over 1,600 participants with the average response rate of 11% from the mailer. 180 individuals increased their contributions and 9 restarted contributions.
 11. Communication Preference – This campaign was sent in February and resulted in 51 individuals registering their accounts, 40 signing up for eDelivery, 138 interactions with the MyOrangeMoney tool, and 913 interactions with the mobile app.
 12. eDelivery – This campaign was mailed in March to 2,400 individuals and had a 6% response rate with 138 signing up for eDelivery.
- F. Customer Service Survey – Chair noted that with the major focus on the first Health and Wealth Benefits fair and Secure 2.0 Act mandates it would be better to postpone the Customer Service Survey until calendar year 2024.

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

- G. Other Issues – Gavin Gruenberg (Gavin) announced that a new dashboard that will be coming out to the website as well as the mobile app and may do a demonstration for the Committee at the next meeting. The new dashboard will allow participants to automatically pull information from outside accounts, such as their bank account and investment information, and feed into the MyOrangeMoney tool to provide a complete picture of the potential income in retirement.

VI. NFP CONSULTING REPORT – Information/Action

- A. Semi-Annual Fund Review – Vince Learned (Vince) provided the following highlights.
1. Market Review – This is the second quarter in a row with a positive return. As of May 12, 2023, U.S. Equity is at 9.3%, International Equity is at 8.1%, and Fixed Income is at 2.1%. The labor market remains tight at 3.5% unemployment in March. The Fed has been very aggressive in hiking rates in an attempt to combat inflation. There was 50 basis points of rate hikes in the first quarter.
 2. U.S. Equity – Large cap led the way up 14.4%, mostly due to technology. Financials was down about 6%.
 3. International Equity – Large growth did well at 11.4% and emerging markets were the laggard, but still up 4%. Developed international markets continue to outperform emerging markets. For the second consecutive quarter on a rolling 1-year basis, international outperformed investing.
 4. Fixed Income – The yield curve as of March 31 is inverted, although there was a reasonably good first quarter for fixed income with positive returns across the board. High yield and corporate investment grade income led the way.
 5. Chart of the Quarter – Vince covered the Bank Outlook chart stating that the banking turmoil has been primarily limited to a fairly small group of regional banks.
 6. Scorecard Methodology – Vince recapped the scoring methodology and various scorecard used in evaluating fund managers and their investment strategies.
 7. Fund Review – Vince reviewed the score for each fund in the Plan.
- B. Watch List Update
1. Virtus Ceredex Mid-Cap Value Equity I – This fund dropped from a score of 10 to 5, which may happen on occasion since the metrics are binary. This fund had a narrow misses on style drift, the up/down at 97.3/98.6, and information ratio.

2. American Funds Europacific Growth R6 (American Funds) – This fund scored a 6; however, the low score is mainly due to how the fund is managed, which is between blend and growth and this fund has an allocation to emerging markets where the benchmarks do not. When using the All Country World Index as the benchmark, this fund would score an 8. However, there are other options for true international large cap growth funds.
3. PIMCO Real Return Institutional – This fund scored a 7 and had strong peer group rankings but missed the point for information ratio. Although 7 is an acceptable score, since this fund scored a 6 in the second quarter of 2022, it remains on the watch list. If this fund has an acceptable score for one more consecutive quarter, it will be removed from the watch list recommendation.

Vince detailed the Large Cap Growth Asset Class Review and score card comparison between the American Funds fund, the MFS International Growth R6 (MFS) and the Fidelity International (Fidelity) fund, which scored a 6, 10 and 9, respectively. Both the MFS and Fidelity funds are from the NFP focus list and are high scoring, high conviction strategy funds. Vince noted that with an American Fund, there will be a competitive expense ratio, and one of the goals is to reduce the expense or keep the expense the same. Both MFS and Fidelity have higher expense ratios.

If the Committee were to entertain a replacement fund, NFP recommends to utilize MFS. MFS is slightly more expensive than Fidelity, but has a higher score, better peer group rankings, and overall better metrics across the board. For the 10-year, 5-year, and 3-year performance, MFS has done better than both American Funds and Fidelity. Bill Tugaw (Bill) reminded the Committee that American Funds has emerging markets and the benchmark does not have emerging markets. From 2019 to almost 2021 and from 2015 to 2017, emerging markets outperformed developed markets. Bill asked if the Committee wanted to have emerging markets in the portfolio. Vince noted that American Funds is between blend and growth, and that the Plan already has an international large value option available. When American Funds is compared to a benchmark with emerging markets, the fund scores an 8.

Bugs asked if the number of participants in the fund is a consideration. NFP advised that the Investment Policy Statement does not address the number of participants in a fund and it should not be considered from a fiduciary perspective.

Chair noted that it is concerning that this investment has an issue of not being clearly aligned to a particular style. Vince explained that for the U.S., it is Morningstar that classifies the fund and all the data is based on Morningstar data. Chair asked if there is a prospectus for these funds, and Gavin responded that the prospectus may not add a lot of value as it would only indicate every share cost that the fund manager offers, and this is a low cost fund. Gavin further explained that Voya's website allows participants to click on fund link that provides a fact sheet furnished by Morningstar with data on the portfolio but does not include benchmark information.

Carrie Castle (Carrie) asked how long the last fund that was replaced was on the watch list. Vince responded that the American Funds Large Cap Growth fund was the last change and that he would have to check on how long it was on the watch list.

Chair noted that the Committee does not make fund changes often, and asked NFP for additional historical data on American Fund when compared to a benchmark with emerging markets to continue the discussion at the next meeting.

On a motion duly made by John Hashimoto, seconded by Michael Golojuch and unanimously carried, the Committee accepted and approved the three funds on NFP's Watch List as listed in the Summary of Considerations.

- C. Legislative and Regulatory Update – Bill stated during the 457 University in August, NFP will present information on the Secure 2.0 Act, and the Committee should focus on things that need to be considered for 2023 and 2024. There are several items in flux as there are a fair amount of provisions that still require clarification. NFP is planning to put together an organized presentation to take each provision one at a time. Chair stated that a working group may be formed to have more discussion after NFP's presentation in August. Chair noted that some of the mandatory changes went into effect in 2022 and will be effective at the start of 2024 and asked if we will be in compliance. Voya confirmed that the age increase for the Required Minimum Distribution has been implemented. Jennifer asked about the status of the mandatory Roth catchup for Age 50+ provision that is to take effect on January 1, 2024, and Deirdre responded that there has been several jurisdictions and NAGDCA that have sent letters asking for the effective date to be pushed back. Chair asked the Committee staff to start working with the appropriate departments on what it would take to implement the mandatory Roth catchup for Age 50+ provision by January 1, 2024.
- D. Other Issues – None.

VII. OTHER BUSINESS – Information/Action

- A. Health and Wealth Fair Update – Jenny Tobin (Jenny) handed out the Save the Date Flyer created by Voya that will go out with the next newsletter and also provided to the Departments to post. Jenny stated that the team is also working on the online registration form, and all eligible City employees and those that have separated or retired and are plan participants may attend. The Mayor has already approved City employees 2 hours of paid time off to attend the fair.
- B. Amendment & Restatement of Plan Document & Adoption Agreement – Resolution 2023-1 – Chair stated that one of the main focuses of amending and restating the plan document and adoption agreement was to add mandatory distributions of terminated accounts with less than \$5,000, which will better control administrative costs of the plan.

On a motion duly made by John Hashimoto, seconded by Michael Golojuch and unanimously carried, the Committee adopted Resolution 2023-1.

At 11:54 a.m., Voya and NFP staff were excused from the meeting.

- C. NFP Consulting Contract – Chair stated that the NFP Consulting contract ends at the end of August and the Committee has options. Although NFP has been serving the Committee for several years, the current contract is from a recent competitive solicitation/RFP done in 2018. Honolulu's contract with NFP allows extensions up to 5 years. Lynn Wakatsuki (Lynn) stated that if the Committee wants to do another RFP, we would need at least 1 year in order to go through the process. Mike reported that he checked with other jurisdictions that receive similar services as Honolulu and shared their

contract costs. After the Committee discussed the cost of the contract, quality of service, and NFP's possible succession plan, the Committee agreed to a 3 year extension. During year 1, the Committee will gather information on succession planning and service strategy and then in Year 2 of the extension, the Committee will decide whether to do an RFP.

On a motion duly made by John Hashimoto, seconded by Michael Golojuch and unanimously carried, the Committee approved a three year extension of the NFP contract at the same fee of \$12,000 a quarter. Then, in order to correct an error in this previously adopted motion, (1) on a motion to amend the motion previously adopted duly made by John Hashimoto, seconded by Michael Golojuch, and unanimously carried, the Committee amended the previously adopted motion by striking the words "at the same fee of \$12,000 a quarter" and inserting the words "such that the fee of the NFP contract does not exceed \$50,000 annually" and (2) on a motion duly made by John Hashimoto, seconded by Michael Golojuch, and unanimously carried, the Committee adopted this amended motion.

VIII. REPORT ON ADMINISTRATIVE EXPENSES – Information/Action

Jennifer reviewed the quarterly expense report. The quarter started with a balance of \$219,113.13. Voya's reimbursement of \$43,750 for quarter 1 of 2023 was received. Expenses totaling \$16,057.54 included NFP's Consulting Service payment, the lunch and refreshments for the annual meeting and five registrations for the 2023 NAGDCA Annual Conference.

On a motion duly made by Michael Golojuch, seconded by Florencio "Bugs" Baguio, Jr., 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 – DHR Conference Room, FMB 10th Floor
Thursday, August 24, 2023, 9:00 a.m. – 3:00 p.m.

Third Quarter – Mayor's Conference Room
Friday, August 25, 2023, 10:00 a.m. – 12:00 p.m.

Fourth Quarter – Mayor's Conference Room
Friday, November 17, 2023, 9:30 a.m. – 12:00 p.m.

XI. ADJOURNMENT

There being no further business, the meeting was adjourned at 12:13 p.m.

Respectfully submitted,

Jennifer Bishop
Secretary