

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

MINUTES OF THE QUARTERLY MEETING OF THE COMMITTEE

The Quarterly meeting of the City and County of Honolulu Deferred Compensation Plan Committee (“Committee”) was held on **Thursday, February 20, 2025**, in the Mayor’s Conference Room, 530 South King Street, 3rd Floor, City Hall, Honolulu, Hawaii.

- Present: Andrew Kawano (Department of Budget and Fiscal Services (BFS) Director & Committee Chair)
Florencio “Bugs” Baguio, Jr. (Department of Human Resources (DHR) Assistant Director & Alternate for Committee Member Nola Miyasaki)
Chamara Silva (Administrative Services Officer & Committee Member designee for Managing Director Michael Formby) (via Webex)
John Hashimoto (Committee Member-Active)
Michael Golojuch (Committee Member-Retiree)
- Excused: Nola Miyasaki (DHR Director & Committee Member)
Reid Yamashiro (Deputy Corporation Counsel & Committee Member designee for Corporation Counsel Dana Viola)
Connie Kaneshiro (Committee Member-Active)
- Staff: Jennifer Bishop (BFS Administrative Services Officer & Deferred Compensation Plan Administrator)
Carrie Castle (BFS Deputy Director & Alternate for Committee Chair Andrew Kawano)
Lynn Wakatsuki (Deputy Corporation Counsel)
Leslie Chinn (DHR Compliance Manager)
- Guests: Vince Learned (NFP – Vice President – Advisory Services)
Gavin Gruenberg (Voya – Head of Defined Contribution Sales, Large & Government Markets)
Sharra Querner (Voya – Assistant Vice President, Strategic Relationship Manager)
Jared Nakamoto (Voya – Financial Advisor and Hawaii Case Manager)
Stacey Laxton (Voya – Communications Consultant)
Tony Camp (Voya – Vice President, Stable Value Product Group)
Paul Buren (Voya – Senior Vice President, Senior Portfolio Manager) (via Webex)
Russell Kaya

I. CALL TO ORDER

With quorum present, Andrew Kawano (Chair) called the meeting to order at 9:33 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 November 22, 2024, Quarterly Meeting minutes and Chair asked for discussion.

On a motion duly made by Florencio “Bugs” Baguio, Jr., seconded by Michael Golojuch and unanimously carried, the Committee approved the Quarterly Meeting minutes from November 22, 2024.

III. PUBLIC COMMENTS – Information

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

IV. VOYA REPORT – Information/Action

A. Overview and Update of the Stable Value Portfolio – Tony Camp (Tony) provided the following highlights:

1. Voya Stable Value (Assets) – A total of \$64.2 billion in assets with \$7.8 billion in Stabilizer, \$30.3 billion in Managed Custody, \$26.1 billion in Fixed Account, and \$8.5 million in Pooled CIT Fund. Voya purchased One America Retirement Services in early January which will increase Fixed Account by \$4 billion. The larger the general account, the more reserves available to pay any claims.
2. Voya Ratings - Fitch upgraded Voya's rating to A+ in September 2024. Standards and Poor's affirmed their A+ rating in June 2024 and Moody's remained the same at A2.
3. Stable Value Market Observations – Stable Value Investment Association surveys all providers in the US on their books of business. There has been a steady decline from \$894 billion as of September 2023 to \$853 billion in September 2024. Across all plans, there are participants leaving the plan and converting to IRAs. During 2024 Q4, there were three interest rate reductions, totaling 100 basis points. Money market rates dropped 50 to 100 basis points, and long bonds went up resulting in longer end of curve running contrary to the Federal Reserve action.
4. Contract Position as of December 31, 2024 – At the end of the year, the market to book ratio was at 91.42%. At the end of January 2025, the ratio was at 91.71%
5. Net Cash Flow – December 2020, during COVID, was the last positive cash flow year. 2023 had the highest amount of negative cash flow and it decreased last year. In relation to total fund balance, the City's negative cash flow is less negative than other plans.

Paul Buren (Paul) provided the following updates from the Portfolio Review for quarter ending December 31, 2024:

1. Voya's Investment Management assets total \$336 billion. Fixed income assets are up to \$172 billion. The public market subtotal within Fixed Income is \$115 billion and \$57 billion in private markets such as private credit or commercial mortgage loans. The City's portfolio focuses only on public fixed income sectors.
2. Fixed Income Assets Under Management – There is about \$13.1 billion in assets under management for stable value across all Voya's multi-sector portfolios. The City's portfolio is under core intermediate and is the most popular stable value strategy.
3. Portfolio Performance and Characteristics: US Growth is expected have positive growth and driven by strong fundamentals in the economy, with strength in US consumer and corporate revenue and earnings growth. Labor market remains strong. Inflation is expected to continue to moderate slowly, but not get down to the Federal Reserve target. The Federal Reserve has paused the cuts to the interest rates.
4. New Administration and Portfolio Position: Growth oriented policies such tax cuts and deregulation are being considered, as well as tariffs and stricter immigration policies, which may depress growth. This may create some dislocations in the market which will provide opportunity for fixed income sectors at more attractive valuations. Currently, valuations are tight across the board, with Equities at an all-time high. Paul explained that with the tight valuations, the plan is to stay low beta and high quality.
5. Performance Summary: Overall return of the portfolio was positive 3.83% for the year despite the interest rates, outperforming the benchmark by 1.37%. High Yield Corporates and Commercial Mortgage-Backed Securities drove most of the excess

returns. Asset-Backed Securities also performed strongly. Paul noted that the portfolio is being actively managed by increasing sectors that have good relative value and reducing other sectors. In addition to other details showcasing the active management of the portfolio, Paul highlighted that Investment Grade Corporates increased by about 2% in the first quarter, which did very well at the beginning of the year and then in fourth quarter, it was reduced by 3% after the spreads hit a near all time high. Paul also noted that the duration is typically kept close to the benchmark as taking duration trades has high risk and minimal return. If there is high conviction on an interest rate move, they'll take a small position and but won't keep it for long. Paul explained option adjusted spread and provided detailed information on commercial mortgage-backed securities.

B. Other Issues – None.

At 10:20 a.m., Paul was excused from the meeting.

V. NFP CONSULTING REPORT – Information/Action

Vince Learned (Vince) provided the following Market Review update: U.S. Equity was up 23.8% for the year and International Equity up 5.5%. The unemployment rate remained at 4%. For U.S. Equity, Large Growth had a successful quarter up 7.1% with Large Value down 2%. In International Equity, Large Value held up the best. On a rolling one-year basis, Emerging Markets slightly outperformed Developed International Markets. U.S. Equity continues to outperform International. The Yield Curve is starting to reflect a normal upward sloping yield curve.

A. Watch List Update –

1. Vanguard Mid Cap Index Institutional – This fund dropped from a 10 to a 6. With index funds being closely concentrated, a small deviation can result in a loss of points for the metrics, which is what happened to this fund.
2. PIMCO High Yield Institutional – This fund is scoring an 8. It is being flagged because of the score of 6 in the first quarter of last year. Should it have one more quarter of an acceptable score, it could be removed from the Watch List.

On a motion duly made by Michael Golojuch, seconded by John Hashimoto, and unanimously carried, the Committee approved and accepted Watch List recommendations.

B. Legislative and Regulatory Update – Potential impacts from the election include cuts to deferral limits and the “Rothification” of all retirement savings in order to offset shortfall and provide funding for new priorities. NAGDCA updated its “Intro to Defined Contribution Plans” which may be helpful, particularly to newer committee members. Lastly, Vince discussed how the average American believes that they will need \$1.5 million to retire comfortably. Historically, there was a lot of conversation about how much was needed in retirement. Recently, the industry has pivoted to encouraging more focus on income and each person’s unique set of circumstances. Chair asked if the \$1.5 million target is per person or per household. Vince assumed household, but will confirm.

C. Other Issues – None.

VI. OTHER BUSINESS – Information/Action

A. Force Out/Cash Out – Jennifer reported that last June was the first time the Plan had completed a Force Out/Cash Out of terminated employees who had account balances of \$5K or less which resulted in over 800 accounts being closed. Terminated individuals with a balance of less than \$1K were cashed out and those with balances between \$1K

and \$5K were rolled into an IRA. There was a 60-day notice period in which participants could reach out to Voya for available options, such as rolling other monies into the Plan to increase their balance above the \$5K threshold to remain in the plan. The Secure 2.0 Act allows plans to increase the minimum balance to \$7K, which the Committee elected to defer. The Committee had previously discussed making this an annual process. If we proceed with the Force Out/Cash Out process this year, there could be about 80 participants, based on a report ran the other day, with about \$150K leaving the plan. Chair stated that since 80 is not a high number of individuals, the Committee may want to hold off for a year with the uncertainty of the new administration and higher valuations to allow things to settle down. Jennifer stated that the initial plan was for an annual Force Out/Cash Out so that there was not a large amount of records for DHR to go through to confirm that the individuals have indeed separated and not returned, which is a manual process. Gavin Gruenberg (Gavin) stated that plans typically do this process annually. Chair stated that he is concerned about the administrative burden as well, and does not want to have to call upon DHR to review a thousand records again in the near future.

On a motion duly made by Florencio “Bugs” Baguio, Jr., seconded by John Hashimoto, and unanimously carried, the Committee approved to proceed with the Cash Out/Force Out process for 2025.

- B. Process for Acceptance/Approval of the Quarterly Voya Stable Value Crediting Rate – Vince explained the current process of Voya sending their calculated crediting rate to NFP and NFP recommending to Chair whether it should be accepted or not. Historically, the rounding has been to the nearest 0.05%. For example, if the calculated rate was 2.73%, it would be rounded up to 2.75%, and if the calculated rate was 2.72%, it would be rounded down to 2.7%. In the past there were times there was a deviation from what was calculated. For example, the calculated rate was 2.7, but the prior quarter was at 2.8 and there was a strong market to book ratio, and we felt comfortable having it elevated relative to what was calculated. This is the only plan for which NFP provides direction as to the crediting rate of the stable value fund, and this may provide some additional fiduciary exposure for both NFP and the City. Vince is asking the Committee to take the calculated rate as presented, with in-depth conversations such as today’s discussion, and whether the rounding should be continued. Gavin concurred and stated that accepting the rate as calculated is best practice and explained it is a formulaic process stated in the contract. Gavin also confirmed that the data will still be provided every quarter with the rate calculation package. Tony explained that the rounding of the rate started during the 2008 financial crisis which produced strange results from the formula, so the rounding was a way to smooth out the rate so that participants would not see wide swings with the rate going up and down and panic. Chair stated that keeping the calculated rate make sense and a future discussion to consider rounding the rate can be had when the financial environment warrants.

On a motion duly made by John Hashimoto seconded by, Florencio “Bugs” Baguio, Jr., and unanimously carried, the Committee approved to accept to the stable value fund rate based on the calculation provided in the contract.

- C. 2024 NAGDCA Conference Highlights – Vince provided the following highlights:
1. Mastering Strategic Contract Negotiations to Maximize Plan Success –Administrative agreements should match the expected services and other documents that are part of the contracting processes should be thoroughly reviewed.
 2. Effective Governance and Fiduciary Excellence – Includes governance structure, fiduciary best practice, monitoring investment expenses.
 3. Target Date: Answer to the Wrong Question? – One panel member was concerned about the use of Target Date Funds (TDF) since most public sector plans have a

- fairly rich defined benefit, and his assertion was that defined benefits should be considered as fixed income proxy. When the defined benefit is taken into account, most participants would be over-allocated to fixed income when using a TDF. Therefore, his conclusion was that public sector plans should use (or at least consider) a risk-based fund as the default investment for the plan. TDF are still a good low-cost solution.
4. Demographic Dynamics and Spending Behaviors – A fair number of participants experience an unexpected spending spike, such as health issue, emergencies., where spending goes up 25% or more over the median of the prior 12 months, resulting in credit card usage, hardship withdrawals increase, etc. Plans should consider education, emergency savings provisions under Secure 2.0.
 5. Enhancing Retirement Security: Effective Campaigns and Rollouts: State of Missouri had a successful campaign to increase cyber security. Before the campaign, 61% of participants did not have user ID. The campaign resulted in 13% increase in accounts with proper cybersecurity credentials.
- D. Collective Investment Trusts – Vince reminded the Committee of past discussions about considering CITs with the aim of reducing expenses in the plan. Initially, NFP brought Great Gray to the table. The Committee did some due diligence work with Great Gray and the request was made to look at other CITs. Vince highlighted the difference in expenses for similar funds and CITs. In Large Cap Growth, the American Century Ultra fund has an expense of 54 basis points compared to the American Century U.S. Premier CIT at 40 basis points. Similarly, in International Large Cap Growth, MFS International Growth has an expense of 72 basis points versus the MSF International Growth Equity CIT at 57 basis points. After discussion, Chair deferred a vote to the next meeting to allow members to do their own research.

At 11:06 a.m., Voya and NFP representatives were excused from the meeting.

- E. Elections for Active and Retiree Committee Members – Jennifer provided the following information to the Committee: The last elections were held in 2021 for a term of 5 years, which will end on June 30, 2026. The 2021 election resulted in Chase Masuda and Doug Chun being elected as active members and Mike Golojuch as the retiree member. Doug retired on December 1, 2022, and in February, 2023, the Mayor appointed John Hashimoto to complete his term. Chase retired on June 1, 2023, and the Mayor appointed Connie Kaneshiro to complete Chase's term. The term for John, Mike, and Connie will end next June. For the Committee's information, staff will start working on an election plan and bring forth a proposed scope of work for the vendor selection. The vendor will have to be selected no later than the November meeting so that the nomination solicitations can go out in early January. Nominees have to be approved by the Mayor. The plan is to have a mechanism that allows for participants to submit their vote online, should voting be necessary.
- F. Service Agreements – Jennifer notified the Committee that the agreements with both Voya and NFP end in 2026. Regarding Voya's service agreement, the initial contract was entered in April 2015, with the initial term ending in March 2020. There were two extensions that took the contract thru March 2022. In 2021, the contract was renegotiated for a five-year term, bringing the contract term end to September 30, 2026. There are two 1-year extensions available. The last Request for Proposal (RFP) was completed in 2014. NFP has suggested that it would be prudent to go through the RFP process, starting with a Request for Disclosure to Voya to obtain all of the nuances of our current plan. NFP would facilitate the RFP processes for the third-party administrator, taking the lead in drafting the solicitation, reviewing and assessing the received proposals and bringing their findings and recommendations to the Committee. Jennifer suggested a working group be created to work with NFP on the details for the third-party administrator RFP. Lynn Wakatsuki stated that even with NFP facilitating the

RFP, it does take up quite a bit of time from the Committee members to provide the direction. After discussion, Chair stated a short special meeting will be scheduled to update the Committee and make a decision on the working group.

NFP's contract ends on August 31, 2026, and has an available two-year extension. The last RFP for consulting services was issued around 2017/2018. The Committee and Staff would be heavily relied upon for this RFP, as well as the BFS Purchasing Division. Chair recommended extending the contract with NFP, who can assist with the procurement for the third-party administrator, and then in 2026, the Committee can start up the RFP for consulting services. Jennifer stated she would reach out to NFP to see if they are agreeable to extending the contract for the remaining two years.

II. REPORT ON ADMINISTRATIVE EXPENSES – Information/Action

Jennifer reported that the period started on November 23, 2024, with a balance of \$331,089.79. Two quarterly reimbursement checks were received, totaling \$60,000. Expenses totaled \$15,241.68 and included NFP's quarterly consulting services fee of \$12,735.00, NAGDCA 2024 completed travel expenses of \$1,041.68, and the 2025 membership dues for NAGDCA and the International Foundation of Employee Benefit Plans. The period ended on February 19, 2025, with a balance of \$375,848.11.

On a motion duly made by Chamara Silva, seconded by Michael Golojuch, and unanimously carried, the Committee approved and accepted the Committee's administrative expense report as presented.

III. EXECUTIVE SESSION (as required)

The Committee did not go into Executive Session.

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

Second Quarter – Mayor's Conference Room

Friday, May 16, 2025, 10:00 a.m. – 12:30 p.m.

457 University Training – Neil Blaisdell Center

Thursday, August 21, 2025, 9:00 a.m. – 3:00 p.m.

Third Quarter – Mayor's Conference Room

Friday, August 22, 2025, 10:00 a.m. – 12:30 p.m.

Fourth Quarter – Mayor's Conference Room

Friday, November 14, 2025, 10:00 a.m. – 12:30 p.m.

V. ADJOURNMENT

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

Respectfully submitted,

Jennifer Bishop
Secretary