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STATE OF HAWAII
DEFERRED COMPENSATION PLAN
235 S. BERETANIA STREET
HONOLULU, HAWAII 96813-2437

January 26, 2015

ADDENDUM NO. 1

WRITTEN RESPONSES TO QUESTIONS RECEIVED ON THE
REQUEST FOR PROPOSALS FOR INVESTMENT CONSULTANT SERVICES FOR THE
STATE OF
HAWAII DEFERRED COMPENSATION PLAN AND ITS BOARD OF TRUSTEES,
RFP NO. DCP-FY-14-2

- Q1. "Please confirm that the investment consultant reports to The Plan's Board of Trustees?"
- A1. Yes.
- Q2. "Could you please describe the composition of the oversight body the consultant will be reporting to?"
- A2. As stated in Section II ("Introduction") of the RFP, the Board has seven trustees, all of who are appointed by the Governor. Of the seven, two are ex-officio members; one is the Director of the Department of Human Resources Development and the other is the Director of the Department of Budget and Finance. The remaining five trustees are active, eligible employee members.
- Q3. "Is the Board considering any restructure/streamlining of the fund line-up? Are there any funds that are off-limits?"
- A3. No.
- Q4. "It appears that the Lifecycle funds are custom funds, and that the consultant will be responsible for rebalancing the funds. Will the consultant also be responsible for determining the glide-paths of the funds and updating for annual capital market assumptions? When was the last time the glide-paths were evaluated? Is the Board considering adding any new asset classes to the custom funds? Please confirm that the consultant is responsible for creating the fund fact sheets for the custom funds."
- A.4. The Consultant acts in a fiduciary capacity when providing investment consultant services for the Plan's LifeCycle portfolios, which includes reviewing and assisting the Board in reallocating the LifeCycle portfolio asset allocations on an annual basis against the latest capital market assumptions, and presenting its analysis of the glide paths of the LifeCycle portfolios to the Board. The review is done annually and the last review was done in March 2014. Regarding the Fund Fact Sheets ("FFS") for the Lifecycle portfolios, the current TPA, Prudential Retirement, is producing the six (6) Lifecycle

portfolio FFS for the Plan.

Q5. "Do you use revenue sharing to help offset the administrative costs?"

A5. All 12b-1 fees, expense reimbursements, annuity expense fees, rebates, etc. that the investment providers provide on behalf of the Plan to the Third Party Administrator ("TPA") are collected by the TPA and credited back to participant accounts.

Q6. "Has there been any recent recommendations/restructuring work?"

A6. No.

Q7. "We revived a list of the fund options in the plan. Is it possible to get the dollars allocated to each of the funds?"

A.7. As of September 30, 2014:

Stable Value:	Co-manager Prudential/Jennison Associates and co-manager INVESCO, 50% split	\$847,918,173
US Fixed:	PIMCO Total Return Fund	\$68,400,816
	BlackRock US Bond Index	\$31,816,806
Balanced:	JP Morgan Diversified Real Return Fund	\$815,769
	Vanguard Wellington	\$147,404,329
US Large Cap:	Wellington Research Value	\$111,820,618
	Victory Institutional Diversified Stock Fund	\$54,355,683
	NYL/MainStay Large Cap Growth Fund	\$62,328,764
US Small & Mid Cap:	BlackRock US Large Cap Index	\$262,473,191
	Harbor Small Cap Value Fund	\$24,385,473
	Century SMID Cap	\$44,597,777
International Equity:	BlackRock US Small/Mid Cap Index	\$40,297,855
	MFS International Value	\$21,171,167
	American Funds EuroPacific Growth	\$91,244,062
Emerging Markets:	BlackRock Non-US Equity Index	\$13,376,405
	Schroder Emerging Market Equity	\$6,542,416
Lifecycle (Target Date) Portfolios:	Income Fund	\$10,932,549
	2015 Fund	\$22,529,821
	2025 Fund	\$23,317,856
	2035 Fund	\$18,192,388
	2045 Fund	\$13,477,180
	2055 Fund	\$2,042,596
Other:	Self-Directed Brokerage Option	\$14,695,685

Q8. "Does the plan include any retirement income /annuity options?"

A8. No, not at this time.

Q9. **"Does the plan use managed accounts?"**

A9. Yes.

Q10. **"It appears that Mercer is the incumbent investment consultant, and has been so for over 13 years. Is there any reason why the current consultant is not able to continue in such capacity? Is the Board dissatisfied with any of the current arrangements?"**

A10. No, as stated in the RFP under Section II ("Introduction") of the RFP, the only reason that the Board is issuing an RFP is because the Board's current contract with Mercer expires on June 30, 2015.

Q11. **"What is the current investment consulting fee? For the annual retainer? For the project and variable work? Please identify the fee structure and what is included. "**

A11. Refer to Q&A # 31.

Q12. **"What are the top three challenges facing the Board and the staff with regard to the Plan? Are there specific goals for the Plan that the Board would like to achieve and would be willing to share with us? For example, do you need to increase participation?"**

A12. The Board is always interested in increasing participation in the Plan, and continuously strives to improve its educational and outreach activities.

Q13. **"Do you have a copy of the most recent performance report? Are you willing to share it? Is there anything you would like to add to the report?"**

A13. A copy of the Third Quarter 2014 performance report will be made available on the Department of Human Resources Development website at <http://dhrd.hawaii.gov/retirees/irc-457/request-for-proposals/>. The Board has not asked for any additional information to be added to the report; however, the discretion to add information to the report or enhance the reporting format is left to the consultant.

Q14. **"It appears that there will be semi-annually meetings but quarterly reports. Does the Board review all of the funds at each meeting? Or is there an effort to focus on the funds with the highest participant exposure and assets? "**

A14. The Board may meet to discuss periodic, significant developments that involve the investment product providers or activities that may impact the Plan's current investment product structure. After the end of each calendar quarter, the investment consultant provides quarterly reports to the Board and reviews all of the Plan's investment options.

Q15. **"Do you have an investment policy statement for the Plan? How frequently do you update the investment policy statement? When was the last revision? What was**

revised? Is it possible to obtain a copy of the Policy?"

A15. Yes, the Plan does have an investment policy statement. The Board last amended the Plan's Investment Policy Statement on February 11, 2014 to include two investment options that were added to the Plan in 2013, and to update the benchmark for the International Core Equity Fund to the MSCI ACWI ex-US Index. A copy of the Plan's Investment Policy Statement will be made available on the Department of Human Resources Development website at <http://dhrd.hawaii.gov/retirees/irc-457/request-for-proposals/>.

Q16. **"Are any of the investment managers currently on performance watch, or are there any anticipated manager additions or terminations anticipated?"**

A16. The Century SMID Cap Growth Equity Fund is being terminated and a contract with the new SMID Cap Growth fund manager is currently being worked on. Investment managers currently placed on the watch list are for the Harbor Small Cap Value Fund and the MainStay Large Cap Growth Fund.

Q17. **"Are there additional asset classes or investment options that Board would like to add to the Plan?"**

A17. Not at this time; however, the Board is open to considering alternatives and looks to the investment consultant for recommendations.

Q18. **"The Plan offers a Stable Value fund. What are the specific consultant responsibilities for the monitoring of the Stable Value fund? Does the Board require an opinion on the wrapper? On the insurance carrier?"**

A18. As stated in Section III.A.4. and III.A.5. ("Scope of Work") of the RFP, the Consultant is responsible for monitoring and reporting to the Board of any significant developments involving the investment companies that may affect the investment products provided to the Plan and its participants, including the Stable Value Fund. Opinions on the wrapper or on the insurance carrier may be information that is presented to the Board, including reports on current issues occurring nationally that relate to the wrapper or insurance carrier.

Q19. **"Is the Board currently or prospectively considering the addition of investment products to the existing line-up of 23 offerings?"**

A19. Refer to Q&A #s 16 and 17.

Q20. **"How long has the investment product line-up been in place?"**

A20. The Plan unbundled its investment product structure in 1997, and has since replaced and added investment products to the Plan's core investment product line-up.

Q21. **"Page 12 of the RFP (III.B.1.h) discusses a challenge to the contractor's advice to the Board regarding the selection of investment products. Has such a challenge**

- occurred in the past?"**
- A21. No.
- Q22. **"Page 13 of the RFP (III.B.2.d.3) discusses TPA search presentations. When was the last TPA search conducted and how often is such a search required?"**
- A22. The last TPA search was conducted in 2013. A search is required when a contract with the TPA expires or upon a decision to terminate the contract. There have been no terminations of a TPA contract to date.
- Q23. **"Page 14 of the RFP (III.B.2.h) discusses TPA search challenges. Has such a challenge occurred in the past?"**
- A23. Once, in 2002.
- Q24. **"Page 14 of the RFP (III.B.4) discusses attendance at other meeting not described in the RFP. How often are such additional meetings occurred in the past?"**
- A24. Other than the two meetings per year in person (e.g., the Board's semi-annual meetings) and attending the finalist presentations made by the top three Offerors during the evaluation and selection phase of an investment product search or TPA search, attendance at additional meetings have been rare.
- Q25. **"Page 15 of the RFP (III.B.5) and (III.C) discusses other consultant services. What types of such services have been provided in the past?"**
- A25. Other than the types of services described in the Fixed and Variable Services sections in the RFP, no other additional services have been provided in the past.
- Q26. **"Page 28 of the RFP (IV.C.2) asks for information on the top ten clients (based on number of employees). Is there a desired size requirement associated with the top ten clients?"**
- A26. No.
- Q27. **"Regarding section C, question 2: does the State want to receive a summary of all our clients, or of our defined contribution clients? Many of our clients are very large public sector and private sector defined benefit pension systems, and we also have very large defined contribution clients."**
- A27. We prefer a summary of your clients with defined contribution plans.
- Q28. **"Regarding section C, question 2: what does the State mean by "bundled"? Bundling can refer to investment products and recordkeeping, but it can also refer to bundled trust/custody services with recordkeeping. We typically use the former definition, and want to confirm."**
- A28. The bundling in section C.2.b refers to the former definition where the bundled

arrangement is within a Plan's investment product structure (i.e., the TPA also provides the investment products).

Q29. "Regarding section C, question 3: does the State refer to defined contribution clients, or any client type?"

A29. We prefer your government clients with defined contribution plans.

Q30. "How many in-person meetings did the prior consultant attend in-person in Hawaii during the course of the last year of service?"

A30. During the service year from July 1, 2013 to June 30, 2014, Mercer attended five (5) meetings in person. For your information, two of the five meetings were held on two consecutive days.

Q31. "The RFP indicates that the State pays the current consultant an annual retainer for fixed services and additional fees for investment and TPA searches. Can you provide the amount the annual retainer and how much the additional fees for searches have been over the last 3 years?"

A31. The State pays the current consultant an annual retainer fee of \$95,000.00 for fixed services. These fees are paid in equal installments on a quarterly basis. The annual retainer includes up to two investment product searches per fiscal year, as described in the "Variable Services" in the RFP. If more than two investment product searches are done in a fiscal year, the current consultant is paid the following:

The third investment product search: \$9,000.00
The fourth investment product search: \$6,000.00
The fifth investment product search: \$3,000.00

Over the last 3+ years, the current consultant was paid \$9,000.00 for a third investment product search.

The State also pays the current consultant \$70,000.00 for the TPA search described in the "Variable Services" in the RFP.

Q32. "Is the State expecting any changes or developments that would affect the Plan and its investment offering in the near term?"

A32. Refer to Q&A #s 16 and 17.

Q33. "Are all investment searches conducted using an open/public RFP process as described on pages 10-12 of this RFP?"

A33. Yes.

Q34. "Regarding Question C.2.a., on page 28, can you please clarify what is requested for "average number of clients"?"

A34. This should instead read "average number of employees".

Q35. **"Who is the current consultant providing the services requested?"**

A35. As stated in the RFP under Section II ("Introduction") of the RFP, the current contract is with Mercer Investment Consulting, Inc.

Q36. **"What are the current fees under the existing contract that are paid to the current consultant?"**

A36. Refer to Q&A # 31.

Q37. **"Could you provide a copy of the Plan's Investment Policy Statement?"**

A37. Refer to Q&A # 15.

Q38. **"Please confirm the need for the investment consultant to create and manage a customized glide path for the Plan's lifecycle funds."**

A38. Refer to Q&A # 4.

Q39. **"Are the existing lifecycle funds limited to the Plans' existing underlying investment options?"**

A39. Yes.

Q40. **"Has the scope of services changed from services provided by existing consultant to services sought as part of this RFP?"**

A40. No.

Q41. **"What are the fixed and variable fee rates charged by the current investment consultant, Mercer?"**

A41. Refer to Q&A # 31.

Q42. **"What are the Board's near and intermediate term considerations for changes to the Plan?"**

A42. Refer to Q&A #s 3, 6, and 16.

Q43. **"What fee does the State of Hawaii DC Plan pay for fixed services from Mercer? What fee does the Plan pay for variable services? What are the total fees the plan has paid Mercer for the past three years?"**

A43. Refer to Q&A # 31.

Q44. **"How many manager/product searches has the Plan conducted in the last three years on average?"**

A44. The Board initiated and conducted the following searches:

2011	Two (2) investment product searches to add two (2) new investment options to the Plan. One (1) investment product search to replace an existing investment fund.
2012	One (1) TPA search.
2014	One (1) investment product search to replace an existing investment fund.

Q45. **"How many hours does the lead consultant from Mercer spend working with the Plan? How many hours does the secondary consultant Mercer spend working with the Plan?"**

A45. The current consultant, Mercer, is on an annual retainer; therefore, Mercer does not provide the State with the number of billing hours that is spent working on or with the Plan.