

Report of the New York State Deferred Compensation Board

In compliance with the Board's

Minority and Women Owned Business Enterprise Policy

For Plan Year 2012

The New York State Deferred Compensation Board (the "Board") established a Minority and Women Owned Business Enterprise policy (the "MWBE Policy"), in accordance with subdivision 2 of Section 5 of the State Finance Law, to ensure the inclusion of MWBE Asset Managers and MWBE Financial and Professional Service Firms in requests for proposals ("RFPs") or searches conducted by or on behalf of the Board with respect to the selection of service providers to the New York State Deferred Compensation Plan (the "Plan").

The Board adopted this MWBE Policy on February 24, 2012. The MWBE Policy is published on the Board's web site at <http://www.goer.ny.gov/nysdcp/index.html>.

The MWBE Policy is administered in accordance with, and subject to, the Board's fiduciary duties and obligations to the participants and beneficiaries of the Plan and in accordance with, and subject to, such other investment limitations as may be prescribed by the Board's Rules and Regulations (the "Rules"), the Internal Revenue Code of 1986, as amended, and any other law or rule as may be applicable.

The Board's MWBE Policy relates to the procurement process for the selection of the following types of service providers for the Plan:

- Business Enterprises providing investment management services with respect to public equity or fixed income securities, or any other asset class for which the Board might engage external investment managers, with respect to assets in mutual funds or separate or commingled accounts that may be part of an investment option available to Plan participants and beneficiaries; and
- Business Enterprises providing administration and education, auditing, banking, financial advisory, insurance, legal, research, valuation and other financial and professional services to the Plan.

The Board conducted four RFPs during the 2012 Plan Year. The following is a report that outlines the efforts undertaken by the Board to ensure that MWBE business enterprises were included in the Board's procurement process.

I. Separate Account Investment Management for the Stable Income Fund

The Stable Income Fund (the “Fund”) is one of the thirty-five investment options available to Plan participants. The Board issued an RFP for a Separate Account Investment Manager that would include a benefit responsive wrap contract for the investments under management. This combined service is generally provided by an insurance company. The RFP was issued on January 31, 2012 and required that responses be received no later than March 14, 2012.

Background Information

As of December 31, 2011, approximately 141,000 Plan participants allocated some or all of their assets in their Plan accounts to this Fund. Total assets in the Fund were approximately \$5.7 billion which represented 45% of total Plan assets.

The Fund was comprised of three investment categories: bond management coupled with benefit responsive wrap contracts, traditional GICs with insurance companies and a cash buffer account. Bond management contracts comprised 90% of the Fund and were managed by BlackRock, EARNEST Partners, Goldman Sachs Asset Management, MacKay Shields, NISA, Jennison, and Western Asset Management. Traditional GICs comprised 1.5% of the Fund and were invested with New York Life Insurance Company. The cash buffer portion of the Fund comprised 8.5% of the Fund and was managed by BlackRock.

RFP Process

Board Staff, the Board’s Stable Value Structure Manager (“SVSM”), and the Board’s Independent Consultant undertook a review of firms that provide or may provide separate account investment management and benefit responsive wrap services to determine if there were any MWBEs providing or who may provide these services. Board Staff, the Board’s SVSM, and the Board’s Independent Consultant were unable to identify any MWBEs that provide this service.

The RFP was advertised in the *State Register* and in the *State Contract Reporter* in accordance with the Board’s Rules and practices. In addition, the RFP was posted to the Board’s web site to assure wide circulation of the RFP.

No MWBEs inquired about the RFP, the services being sought, or responded to the RFP.

II. General Counsel

The Board contracts with a law firm to provide legal services to the Board in relation to the Board's responsibilities as the Rule making body of Internal Revenue Code Section 457(b) deferred compensation plans and as the governing body of the New York State Deferred Compensation Plan. Each responsibility is enumerated in Section 5 of the State Finance Law.

The Board issued an RFP for General Counsel on May 9, 2012 and required that responses be received no later than June 1, 2012.

RFP Process

The Board's Staff undertook a review of law firms that provide or may provide the legal services that were being sought in the RFP to determine if there were any MWBEs currently providing or may provide the required legal services. The Board's Staff identified eight MWBEs that provide or may have been able to provide the legal services required by the Plan. These eight managers were included in the RFP solicitation mailing and were directly sent an RFP.

The RFP was advertised in the *State Register* and in the *State Contract Reporter* in accordance with the Board's Rules and practices. In addition, the RFP was posted to the Board's web site to assure wide circulation of the RFP.

Three law firms responded to the RFP. No MWBEs inquired about the RFP, the services being sought, or responded to the RFP.

III. Liquidity Cash Manager for the Stable Income Fund

The Stable Income Fund (the "Fund") is one of the thirty-five investment options available to Plan participants. The Board issued an RFP for an investment manager to manage the cash liquidity account within the Fund on October 22, 2012. The RFP required that responses be received no later than December 5, 2012. A description of the Fund was previously provided.

RFP Process

Board Staff, the Board's SVSM, and the Board's Independent Consultant undertook a review of firms that provide or may provide cash liquidity investment management services being sought in the RFP to determine if there were any MWBEs providing or who may provide SVSM services. Three investment managers were identified as potentially eligible to provide the cash liquidity and investment management services required by the Plan which would meet the definition of an MWBE. These three managers were included in the RFP solicitation mailing and were directly sent an RFP.

The RFP was advertised in the *State Register* and in the *State Contract Reporter* in accordance with the Board's Rules and practices. In addition, the RFP was posted to the Board's web site to assure wide circulation of the RFP.

Sixteen investment management firms responded to the RFP, one of which was an MWBE, on or before the closing date of December 5, 2012.

RFP Analysis

The SVSM undertook a comprehensive analysis of the RFP responses to determine the qualifications of each responding firm in order to recommend to the Board those firms which should be interviewed as finalists. Following this analysis, the SVSM recommended four finalists, one of which, Payden & Rygel, was an MWBE.

The RFP submission of Payden & Rygel detailed investment management guidelines and pro-forma performance information that was applicable to an enhanced cash portfolio. The investment guidelines of that portfolio included assets that would not be includable in the investment guidelines for the Fund. Payden & Rygel was unable to provide performance information or investment management data that would conform to the specifics of the RFP which the other firms provided in their original RFP response. The SVSM, therefore, could not recommend the selection of Payden & Rygel as the liquidity cash manager for the Fund.

IV. Transition Manager

The Board contracts with an investment management firm to provide transition management services in the event that an investment manager is terminated and the receiving manager will not accept some or all of the assets under management by the terminated manager. This service would be provided on an as-needed basis. The transition manager must be able to provide transition management for domestic and international equities and fixed income securities.

The Board issued an RFP for a transition manager on October 22, 2012. The RFP required that responses be received no later than December 5, 2012.

RFP Process

The Board's Staff and Independent Consultant undertook a review of investment management firms that provide or may provide transition management services. Two MWBEs were identified as firms that may provide or who may be able to provide transition management services. Those two transition managers were included in the RFP solicitation mailing and were directly sent an RFP.

The RFP was advertised in the *State Register* and in the *State Contract Reporter* in accordance with the Board's Rules and practices. In addition, the RFP was posted to the Board's web site to assure wide circulation of the RFP.

Nine transition managers responded to the RFP including the two MWBEs previously identified.

RFP Analysis

The Independent Consultant undertook a comprehensive analysis of the RFP responses to determine the qualifications of each responding firm in order to recommend to the Board those firms which should be interviewed as finalists. Following this analysis, the SVSM recommended three finalists.

The Plan has utilized a Transition Manager in 2007 and 2012 to transition non-US equities from legacy managers to newly selected managers. The equities to be transitioned in both instances involved a market value of approximately \$500 million.

The analysis of the two MWBE firms indicated that the preponderance of transition experiences related to US large cap domestic equities, had limited experience in non-US equities and fixed income, and involved market values significantly less than the transitions that the Plan has experienced or potentially could experience. The Independent Consultant determined that the other respondents to the RFP would provide greater experience and value to the Plan. Therefore, the Independent Consultant did not recommend either MWBE as a finalist in the RFP process.

Current MWBEs Under Contract to the Plan

The Plan has a contract with EARNEST Partners to manage a short duration portfolio in the Stable Income Fund. Approximately \$406 million has been allocated to EARNEST Partners, which represents 6.3% of the assets of the Stable Income Fund.