NYS DEFERRED COMPENSATION BOARD

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DIANA JONES RITTER
EDWARD M. CUPOLI
ROBERT F. MUJICA

May 16, 2014

Memorandum To: Files

Minutes of the May 16, 2014
Public Meeting of the
New York State Deferred Compensation Board

A public meeting of the New York State Deferred Compensation Board (the "***Board***") was held on May 16, 2014, in Room 2E of the offices of Shearman & Sterling LLP in New York, New York. The meeting began at approximately 9:00 a.m. and adjourned at approximately 3:00 p.m. A separate memorandum to the files, also dated May 16, 2014, lists the materials prepared for and referred to during the meeting.

In attendance:

Board Members:	Edward M. Cupoli, Robert F. Mujica, Diana Jones Ritter
Staff Members ("***Staff***"):	Edward Lilly, David Fischer, Sharon Lukacs, Peter Drao
Shearman & Sterling LLP ("***S&S***")	Kenneth Laverriere, Regina Park, Jennifer Stadler (via teleconference)
The Bank of New York Mellon ("***BNYM***"):	Greg Wilcox
GSAM Stable Value, LLC ("***GSAM***"):	John Axtell, Marie Mastro, John Bisset
Callan Associates Inc. ("***Callan***"):	Karen McKechnie
Nationwide Retirement Solutions ("***NRS***"):	Ric Whetro, Jill O'Callaghan, Patrick Ray, Renee Spencer, Brenda Anderson, Peggy Marshall, Eric Stevenson
CliftonLarsonAllen ("***Clifton***"):	Thomas Rey
Fidelity OTC ("***Fidelity***"):	Gavin Baker, Gary Miller

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Other Invited Attendees: Robert Steyer (*Pensions & Investments* Magazine)

Diana Jones Ritter acted as Chairperson and Regina Park acted as Secretary of the meeting. Ms. Ritter called the meeting to order at 9:00 a.m.

I. APPROVAL OF MINUTES

The Board reviewed the minutes of the public meeting held on February 21, 2014. Ms. Ritter moved to approve the minutes and the Board unanimously approved the minutes.

At approximately 9:05 a.m., the Board went into executive session with S&S, Callan, GSAM and Staff to discuss the selection of investment managers and wrap providers for the Stable Income Fund, the selection of the auditor, certain corrective procedures, and the appointment of the new Executive Director.

The Board returned from executive session at approximately 11:15 a.m. and the meeting went back into public session.

II. APPOINTMENT OF EXECUTIVE DIRECTOR

The Board confirmed the previously announced retirement of Edward Lilly effective as of May 21, 2014. On behalf of the Board and Staff, Ms. Ritter acknowledged his dedication and contributions as the Executive Director. Ms. Ritter also announced the appointment of David Fischer as the Executive Director of the Plan effective as of May 22, 2014, and the Board, after motion and seconding, unanimously adopted the attached resolution confirming Mr. Fischer's appointment as Executive Director.

Mr. Lilly then expressed his appreciation to the Board, Staff and other parties affiliated with the Plan for their support and guidance.

III. AUDITOR REVIEW

Thomas Rey of Clifton described the current audit process, including the preliminary testing, discussions with NRS, internal control testing, the preparation of financial statement line items and the status of the process. Mr. Rey confirmed that there were no issues or discrepancies to report thus far.

IV. GENERAL PLAN ISSUES

A. Selection of Auditor

Ms. Ritter summarized the RFP process for selecting the auditor for the Plan in light of the upcoming expiration of the contract with the Plan's current auditor, Clifton. She explained that Staff had provided a detailed explanation of the RFP and selection process during the Executive Session. Staff noted that three firms had initially responded to the RFP and that one respondent had withdrawn due to inability or unwillingness to comply with the Board's contracting requirements. Staff had further stated its recommendation to select Clifton as the Plan's auditor, subject to contract negotiation. The Board then discussed the Staff's recommendation. After discussion, Ms. Ritter moved to accept the recommendation, Edward M. Cupoli seconded the motion, and the Board unanimously approved the selection of Clifton as the Plan's auditor for a five-year term, subject to the negotiation of a mutually acceptable contract.

B. Selection of Fixed Income Investment Managers

Marie Mastro of GSAM next summarized the process of selecting the intermediate duration investment managers and a short duration investment manager for the Stable Income Fund. Ms. Mastro explained that a request for proposals (**"*RFP*"**) had been issued on February 5, 2014 and had received 59 responses. Of those responses, GSAM had selected four intermediate-duration fixed income investment management firms and four short-duration fixed income investment management firms for interviews. Ms. Mastro explained that GSAM and Staff had performed both quantitative and qualitative assessments of each firm, considering the candidates' qualifications, performance, cost efficiency, organizational structure, stability and investment strategies in relation to the existing portfolio in the Stable Income Fund. GSAM presented its recommendations to select (i) Income Research & Management and JP Morgan Asset Management as the Plan's intermediate duration fixed investment managers; and (ii) Wells Capital Management as the Plan's short duration fixed income investment manager for the Stable Income Fund.

Ms. Ritter noted that GSAM and the Board had engaged in an extended discussion of the RFP and selection process during the Executive Session. The Board then discussed the recommendations. In response to a question, Ms. Mastro noted that GSAM had no relationships with the RFP respondents or the finalists that had influenced GSAM's decision-making process or recommendation to the Board. After further discussion, Ms. Ritter moved to accept GSAM's recommendations for investment management services, Mr. Cupoli seconded the motion, and the Board unanimously approved the resolutions to select Wells Capital Management as the Plan's short duration fixed income investment manager for the Stable Income Fund and to select Income Research & Management and JP Morgan Asset Management as the Plan's intermediate duration fixed investment managers for the Stable Income Fund, subject to contract negotiations with each firm.

Staff explained that the next steps would be to finalize the investment management contracts with the selected mangers over the next months and to select wrap providers for the mandates. Ms. Mastro explained that GSAM has received competitive wrap proposals from State Street, Bank of Tokyo Mitsubishi and Prudential. Ms. Mastro also noted GSAM's independent analysis of credit exposure of the wrap providers based on factors including firm risk and country risk. Ms. Mastro confirmed that GSAM's existing relationships with the wrap-provided firms did not in any way influence its decision-making process.

C. Corrective Procedures to Disability Payments

Ms. Ritter noted that, during the Executive Session, the Board had discussed the legal issues relating to corrective procedures proposed by the Office of the State Comptroller (the "***OSC***") to address erroneous tax reporting of disability payments pursuant to section 209-c of the State Finance Law and that no corrective action could be taken until participant and contribution data was provided by the OSC. Ms. Ritter acknowledged that the Board and Staff were, by necessity, relying on the OSC to provide the necessary information and that, once the information was provided, the Staff and NRS would move promptly to effect any necessary corrective distributions or other actions in accordance with correction protocols that were being developed by Staff with input from legal counsel.

D. Review of 2013-2014 Plan Costs

Mr. Lilly provided a summary of the total administrative and investment-related expenses of the Plan during the 2013-2014 fiscal year. He explained that the total administrative expenses of $9.46 million was lower than the budget of $9.8 million, and, due to adjustment of the asset-based fee for the second semester, expenses nearly matched the Plan's revenue of approximately $9.4 million from the asset-based and participant fees. Mr. Lilly further explained that the deficit had been anticipated and was covered by surplus revenue carried over from the 2012-2013 fiscal year.

Mr. Lilly also provided information on the Stable Income Fund's expenses of approximately $22 million, noting that the overall expense ratio for the assets under management with the active bond managers is 35.8 basis points.

Finally, Mr. Lilly provided a summary of the expenses for the Plan's international equity portfolios, explaining that, due to the size of the Plan, the Plan has been able to offer participants an actively managed international investment option for less than the reported average expense ratio for mutual funds focusing on active management of non-U.S. equity securities.

E. MWBE Annual Report

The Staff then discussed the Plan's Minority and Women Owned Business Enterprise ("***MWBE***") policy (the "***MWBE Policy***"), adopted on February 24, 2012, 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 the Plan's RFP process. Mr. Fischer summarized the MWBE Policy annual report and discussed the efforts of Staff, the Board and the Plan's service providers to ensure participation of MWBEs in the RFP process during the 2013-2014 fiscal year. After further discussion, Ms. Ritter moved to accept the MWBE Policy annual report, Mr. Mujica seconded the motion, and the motion was unanimously adopted by the Board.

F. SDIA Religion-Based Exemptions

Mr. Lilly explained that Staff had received a letter from a Plan participant requesting that the Plan either offer a fund that complies with Islamic investing principles or permit an exemption to the restriction in the self-directed investing account ("***SDIA***") to allow participants to invest their entire account in the SDIA, and therefore allow a participant to invest in one or more mutual funds or exchange-traded funds currently available through the SDIA that, in the participant's determination, comply with Islamic principles. Mr. Lilly explained that the Plan's Investment Policy and Procedures currently provide that participants must have at least $10,000 in their account and may invest no more than 50% of their Plan assets in the SDIA. Mr. Lilly described the proposed amendment to the Plan's Investment Policy and Procedures to provide a religious-based exception for participants who attest in writing to their need to be exempt from the SDIA participation limitations due to religious beliefs. The Board reviewed the proposed amendment. After further discussion, Mr. Cupoli made a motion to approve the amendment, Mr. Mujica seconded the motion, and the Board unanimously adopted the motion to amend the Plan's Investment Policy and Procedures to provide a religious-based exception to the account restrictions applicable to the SDIA.

V. ADMINISTRATIVE SERVICE AGENCY PRESENTATION

Patrick Ray of NRS provided an overview of the Plan's continued growth, NRS's staffing updates, the effectiveness of the HELPLINE, new marketing and participant education efforts, Web site enhancements, and other administrative updates.

Mr. Ray introduced Kamal Singh, a new account executive with a background in banking industry, who will cover Queens and the Bronx. Mr. Ray noted that a total of 17 account executives currently work for the Plan.

Mr. Ray then discussed increased enrollments in the Plan and noted that, following a New York State hiring freeze, the Plan had experienced high levels of enrollment activity, particularly in the last two months. Mr. Ray attributed the increased enrollment activity to the improving economy, increased hiring, better resources available to account executives and the Plan's ongoing Tell-a-Friend campaign. Mr. Ray also noted that, in addition to greater enrollments, the Plan had also experienced a growth in the rate of participant plan contributions.

Mr. Ray then provided an update on new adoptions of the Plan, explaining that 21 new employers had adopted the Plan so far in 2014. Mr. Ray attributed this adoption rate to new outreach efforts, including the sending of letters to employers. In response to a question, Mr. Ray noted that NRS does not send the letters to employers who have already adopted a Model Plan.

Renee Spencer then provided an update to the Board on marketing efforts. She noted that the Plan's mobile Web site and Web site enhancements, including an interactive retirement planner, have been well received. Ms. Spencer agreed to provide a demonstration of the retirement planner at the next Board meeting. Ms. Spencer also described new marketing efforts using posters, e-communications, flyers, rotating Web banners and promotional items.

Jill O'Callaghan described the proposed extension of eDelivery options for participant communications, explaining that 10,000 participants are currently enrolled in the eDelivery option. Ms. O'Callaghan explained NRS's proposal to expand eDelivery to include confirmations of account changes, including changes to a participant's allocations, distribution amounts and beneficiaries. Ms. O'Callaghan confirmed that participants would not be required to enroll in eDelivery for all communications but would have the option to enroll in eDelivery for specific communications, and noted that certain communications, including loan packets, name/address confirmations and fund warning letters will continue to be delivered through standard mail. Ms. O'Callaghan also explained the efforts to ensure that the communications are secure, noting that emails to participants through eDelivery will not contain any personal identifying language.

Ric Whetro then described NRS's unclaimed property project to identify decedent accounts that have not been distributed. He noted that 922 participant accounts had been identified and 522 outreach letters had been distributed to beneficiaries, and that there were ongoing efforts to identify beneficiaries and to obtain contact information.

Mr. Ray then discussed the possibility of allowing for online enrollment in the future, potentially beginning the first quarter of 2015. Mr. Ray noted that 64% of plans administered by NRS currently offer the option of online enrollment to participants. He confirmed that, under the online enrollment option, deferrals would not begin until NRS has received a signed form from a participant.

VI. INVESTMENT CONSULTANT PRESENTATION

Karen McKechnie provided an overview of the Plan's performance over the 2013-2014 fiscal year and a market update. She then reviewed the individual performance of the Plan's investment options. In advance of the presentation by the Fidelity OTC fund managers, Ms. McKechnie summarized the performance of the Fidelity OTC fund, noting that Plan assets represent approximately 14% of the fund, which is about 8.5% of Plan assets (approximately $1.5 billion). Ms. McKechnie commended the strong performance of the Fidelity OTC fund but noted that the fund could be volatile due to its focus on technology stocks.

VII. STABLE INCOME FUND

John Bisset provided an overview of the performance of the Stable Income Fund, explaining that the Stable Income Fund has had positive overall performance over the past year and has consistently outperformed its benchmarks. He noted that the fixed income market experienced negative total return, but losses were offset by stronger performance in the first quarter. Mr. Bisset also discussed the Stable Income Fund's overall cash flow, noting that the cash profile has been positive but has decreased in the past few months primarily due to participant reallocations of their account balances to other investment options. He confirmed GSAM's belief that the trend does not yet present a concern, as the Plan continues to maintain an adequate level of liquidity.

Mr. Bisset also discussed the overall sector allocation of the Stable Income Fund, which is governed by the fund's investment guidelines. He noted that the Stable Income Fund's overall performance is the result of both strong performance from riskier options and underperformance in the mortgage sector. Mr. Bisset concluded his presentation by commenting on the performance of individual managers.

VIII. PORTFOLIO REVIEW

Gary Miller and Gavin Baker from Fidelity OTC then joined the meeting. Mr. Baker presented the firm's investment philosophy, explaining its focus on in-depth knowledge of companies in the portfolio, valuation and price momentum of the stock. He noted that the fund is primarily a growth fund, but aims for consistency and is focused on long-term performance. Mr. Baker also described the firm's risk management philosophy and provided examples of how the firm selects its stock investments. A general discussion then followed regarding Mr. Baker's presentation. In response to a question, Mr. Baker described the steps he had taken to try to reduce the volatility of the Fidelity OTC fund by limiting the amount of the fund's total exposure to a single issuer. A general discussion then followed during which Mr. Baker answered a number of questions about the fund and his investment philosophy and his approach to managing the fund and selecting investments.

There being no further issues to discuss, the meeting was adjourned at approximately 3:00 p.m.

Regina Park
Secretary of the Meeting