NYS DEFERRED COMPENSATION BOARD

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DIANA JONES RITTER

EDWARD M. CUPOLI

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November 30, 2012

Memorandum To: Files

Minutes of the November 30, 2012
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 November 30, 2012, 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 November 30, 2012, lists the materials prepared for and referred to during the meeting.

Board Members:	Diana Jones Ritter, Edward M. Cupoli, Robert F. Mujica
Staff Members ("***Staff***"):	Edward Lilly, David Fischer, Sharon DiMura, Peter Drao
Shearman & Sterling LLP ("***S&S***")	Kenneth Laverriere, Jennifer Stadler, Sara Nosaka
The Bank of New York Mellon ("***BNYM***"):	Greg Wilcox
Dwight Asset Management Company LLC ("***Dwight***"):	David Starr, Marie Mastro, John Bisset
Callan Associates Inc. ("***Callan***"):	Mark Kline, Karen McKechnie
Nationwide Retirement Solutions ("***NRS***"):	Brenda Anderson, Larry Hilsheimer, Keri Metres, Patrick Ray, Ric Whetro
T. Rowe Price ("***T. Rowe Price***"):	Brian Rogers, Chris Dyer, Mark Andrusis

Diana Jones Ritter acted as Chairperson and Sara Nosaka 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 September 14, 2012. Edward Cupoli moved to approve the minutes. Ms. Ritter seconded the motion, and the Board unanimously approved the minutes.

II. GENERAL PLAN ISSUES

A. 2012 Significant Accomplishments

Edward Lilly began by giving an overview of some of the recent significant activity involving the assets of the Plan, including the Plan's successful transition from the legacy international investment managers to the newly selected international investment managers and the restructuring of the Stable Income Fund, which involved the transfer of nearly $3 billion in assets to the new separate account providers. Mr. Lilly noted that, as part of this restructuring of the Stable Income Fund, the Board entered into contracts with New York Life Insurance Company (short duration), ING Life Insurance and Annuity Company (short and intermediate durations) and MassMutal Life Insurance Company ("***MassMutual***") (core duration). Mr. Lilly confirmed that the final transfer of assets to MassMutual was completed on November 28, 2012, following which the wrap contracts with JP Morgan Bank and the Bank of America were terminated. In addition, the contracts with BlackRock Financial Management, Inc. ("***BlackRock***") (short duration) and Goldman Sachs Asset Management, L.P. ("***GSAM***") (intermediate duration) were extended from September 30, 2012 until September 30, 2013. Mr. Lilly thanked Greg Wilcox from BNYM and Dwight for their help in the transfer of the assets.

Mr. Lilly next discussed the success of the Plan's Tell-A-Friend program with NRS and the efforts to measure the success of the program going forward. Mr. Lilly then described the conversion to the NRS DC Direct Recordkeeping Platform which took place on October 22, 2012. In connection with this discussion, Mr. Lilly then introduced Larry Hilsheimer, the new President of NRS who was appointed in August, who then made general remarks about the importance of the Board relationship to NRS and his management philosophy and commitment to client service.

Mr. Lilly then resumed his introductory remarks by noting that the General Counsel contract with S&S was completed and approved by the Office of the Attorney General.

Mr. Lilly concluded his opening remarks by summarizing the upcoming Plan issues for 2013. Mr. Lilly explained that the Janus Fund and the Fidelity Magellan Fund have been closed to new investments by Plan participants, and that the Board could consider whether to keep the two funds as investment options under the Plan or to transfer all the assets currently held by the funds into other funds or new investment managers. With respect to the investment management agreements with BlackRock and GSAM, Mr. Lilly explained that both contracts could be extended for a second year, as permitted by the Board's Rules. Mr. Lilly reminded the Board that the transition manager and cash manager contracts are set to expire in 2013, that Callan had issued an RFP for each contract on October 22, 2012 and that the RFP responses are due on December 5, 2012.

B. Proposed 2013-2014 Budget

Mr. Lilly gave an overview of the Plan's estimated expenses and revenues from participant plan level fees for the 2013-2014 fiscal year. The Plan's estimated expenses for the 2013-2014 fiscal year are $9,797.807, which is 0.1% more than the adopted 2012-2013 budget. Mr. Lilly explained that most of the increase in expenses is due to the higher administrative fee to be paid to NRS because of additional Plan participants. Mr. Lilly noted, however, that because it is unlikely that the Plan will issue any RFPs during the upcoming fiscal year, consultant and legal fees are likely to decrease and therefore offset the increase in general administrative costs.

Mr. Lilly explained that anticipated expenses for the 2012-2013 fiscal year are estimated to be $9.62 million, about $160,800 less than budgeted. While expenses are expected to exceed revenues by $548,200, the amount is offset by a $935,000 carryover from the 2011-2012 fiscal year, leaving a balance of approximately $1.54 million in the Plan's Deferred Expense Account, compared to a $2.1 million balance as of March 31, 2012. Mr. Lilly explained Staff's recommendation to use $350,000 from the Deferred Expense Account as an offset for the 2013-2014 fiscal year, allowing the Plan to maintain a Deferred Expense Account balance of $1.2 million. Mr. Lilly also noted Staff's recommendation to maintain a balance of at least $1.2 million in the Deferred Expense Account in the future. A general discussion then followed regarding the budget.

Based on Plan values and budget estimates, Mr. Lilly explained that the asset-based fee is anticipated to be 4.7 basis points, or 0.2 basis points greater than the current asset-based fee of 4.5 basis points. Mr. Lilly also explained how the asset-based fee might need to be adjusted under certain market conditions. He noted that an increase in the per-participant annual fee could be an alternative to an increase in the asset-based fee, explaining that each $1 increase in the per-participant fee would increase revenues by $198,000; however, a $3, $5, and $8 increase in the per-participant fee would be needed to compensate for the loss of revenue if there were to be a 10%, 20%, and 30% reduction in fee eligible assets. Ms. Ritter and Mr. Cupoli asked whether there were other options for collecting participant fees at the Plan level, and whether there was any market or best practices regarding how frequently asset-based fees are charged against participant accounts. A general discussion then followed regarding the timing of assessing asset-based fees. Mr. Lilly agreed to gather information about the frequency of asset based fee assessment at other large Section 457 plans and report back to the Board on this topic at the next meeting.

At approximately 9:40 a.m., Ms. Ritter moved that the Board enter into an executive session to discuss performance criteria recommendations. Mr. Cupoli seconded the motion which passed unanimously. The Board went into executive session. The Board returned from executive session at approximately 10:15 a.m. and the meeting went back into public session.

C. Performance Criteria

David Fischer explained the various findings of CliftonLarsonAllen's FY 2011-2012 Performance Audit of NRS. Mr. Fischer then provided an overview of the various performance criteria and the penalties for noncompliance with the performance criteria. CliftonLarsonAllen had identified exceptions in seven audit criteria, and NRS had submitted a letter responding to the exceptions found in the audit. The exceptions include the handling of benefit applications, HELPLINE availability, web site availability and functioning, web link to Schwab, connection to Morningstar, the processing of unforeseeable emergency withdrawal requests, and the processing of loan requests. Mr. Fischer then discussed the Board's determination with respect to each category, the rationale for the determination, and the Board's final decision to assess $91,100 in penalties based on the CliftonLarsonAllen report and the advice and recommendations of Staff. After discussion, a motion was made by Ms. Ritter to approve the finding and recommendation. The motion was seconded by Robert Mujica, and the Board unanimously approved the recommendation. Ms. Ritter expressed her appreciation of the efforts to improve performance in the areas where exceptions were found.

D. Status Review of Frozen Investment Funds

Mark Kline and Karen McKechnie of Callan next discussed the potential strategies for the assets remaining in the Fidelity Magellan Fund (the "***Magellan Fund***") and the Janus Fund (the "***Janus Fund***") which both have previously been closed by the Board to new contributions by Plan participants. Mr. Kline gave a brief overview of the history of the inclusion of the Magellan Fund and the Janus Fund in the Plan and the rationale for the Board's prior actions to freeze the funds to future contributions.

Mr. Kline and Ms. McKechnie then presented issues for the Board to consider with respect to the decision to eliminate the two funds from the Plan and to map the assets to either new or existing investment options. Mr. Kline discussed the rationale for terminating the funds, issues with respect to mapping assets to new or existing investment funds, and the potential market and cost issues associated with a transition of this magnitude. Mr. Kline also discussed the potential alternative of shifting to a separate account approach for the domestic equity component of the Plan, but indicated that, on balance, it was better to address that issue at a later date in connection with a full review of all of the Plan's domestic equity options. Mr. Laverriere noted that any mapping of fund assets in connection with the termination of the two funds would occur only after participants had been given notice and an opportunity to redirect their investments in the two funds. Mr. Kline then discussed in general terms the various mapping alternatives, including mapping assets to a life-cycle or balanced fund or mapping assets to an equity index fund or to an actively managed equity fund with similar characteristics, including the advantages and limitations of each approach. A general discussion then followed where the Board members asked various questions about the process and strategy involved in terminating a fund and mapping assets.

Mr. Lilly then noted that after the Board had closed the Janus Fund in 2009, approximately 90% of participants did not move their investments into other investment options. Mr. Kline noted that participant reaction was similar following the closing of the Magellan Fund, where 80% of participants have kept their investments in that fund. After further discussion of this point, Mr. Mujica requested that NRS and Mr. Lilly provide the Board at the next meeting with information about the Plan-level trading activities of participants who had remained in the two funds with the hope of identifying whether such participants were actively managing their plan accounts.

After further discussion, Ms. McKechnie indicated that it was Callan's recommendation that the two funds be terminated, and that it was the further recommendation of Callan that the Board be presented at the next Board meeting with a series of alternatives as to how to effect the termination and mapping of assets that were not reallocated directly by participants. Staff and S&S indicated that they concurred with the recommendation.

After further discussion, Ms. Ritter moved that the Board authorize Callan and Staff to proceed on the basis that the two funds would be terminated by the Board and to prepare a presentation at the next Board meeting outlining alternatives for achieving this termination and resulting asset mapping and to present the combined recommendation on the termination and mapping strategy of Callan, Staff and S&S. Mr. Cupoli seconded the motion and the Board unanimously approved the authorization.

E. Portfolio Review

Brian Rogers, Chris Dyer and Mark Andrusis then joined the meeting. After some preliminary remarks by Mr. Dyer, Mr. Rogers gave an overview of the investment strategy and performance of the T. Rowe Price Equity Income Fund (the "***Equity Income Fund***"). Mr. Rogers discussed the investment team and the fund's investment strategy and also a number of broader market factors affecting that strategy and the fund's performance. Mr. Rogers then gave an overview of fund holdings from various perspectives. Mr. Rogers provided the Board with an update on the Equity Income Fund's performance, noting particularly the fund's performance relative to the S&P 500 Index and the Russell 1000 Value Index. A general discussion then followed regarding Mr. Rogers' presentation. Following this discussion, the representatives of T. Rowe Price left the meeting.

III. ADMINISTRATIVE SERVICE AGENCY PRESENTATION

A. DC Direct Update and HELPLINE Update

Keri Metres gave an overview of the transition of the Plan's participant information to the new DC Direct platform. Ms. Metres noted that the new platform allows for greater coordination of participant information, the updating of information in real time on the Plan's Web site and on the HELPLINE when account changes are made. Ms. Metres also discussed the introduction of Plan identification numbers to replace the former system of using participant social security numbers as account numbers.

Ms. Metres noted that NRS had encountered some issues during the transition to the DC Direct platform and the discussion then turned to the new account statements to be delivered to participants in January. Mr. Lilly discussed Staff's earlier review of the statements and the steps that NRS had been directed to take by Staff to address anticipated issues relating to upcoming changes in the content and formatting of participants' statements. Ms. Metres explained that, in response to Staff input, the content and format of participant statements to be distributed to participants in January would be changed from what had originally been contemplated and that additional changes would also need to be made again in April to address all of Staff's comments. A general discussion then followed regarding the statements. NRS indicated that it intended to include an explanation of the statement changes in the quarterly newsletter that will be sent to participants in January. NRS and Staff further explained that, as a result of the revisions, the changes to participant statements would mostly be related to formatting changes and that much of the content in the prior statements would remain in the new statements. After discussion, the Board requested that Staff prepare a summary comparing the current statement to the new statement. The Board reiterated to NRS the need for frequent and advance notice explaining in detail the updates to be made to participants' statements. The Board and Staff also agreed that the notice to participants should use a multi-pronged approach, including through email, traditional mail and notifications on the Plan Web site. The Board further noted its concern to NRS that NRS did not adequately anticipate that the new statements generated by the transition to DC Direct would result in account statements that were not as useful to Plan participants as the current statements. The Board indicated that this could only be corrected by a multi-pronged approach to communicating with participants about the change in format and with the further changes to the actual format and content directed by Staff. Ms. Ritter indicated, moreover, that a written communication about the statement changes would need to be communicated to participants before the January statements were delivered to participants. Mr. Hilsheimer, speaking for NRS, agreed to take all necessary steps to improve the situation and comply with the Board's suggestions.

Patrick Ray next discussed operational problems that NRS has encountered during the transition to the DC Direct platform, including the inability of the HELPLINE to handle increased call volumes and unexpected staff changes during the transition. He acknowledged that NRS had not been able to meet its minimum service levels during and after the transition, and explained that NRS would again come short of the minimum service levels in the current month due to continued "latency" issues with the HELPLINE, which have been exacerbated by increased call volumes following the transition to the new platform. With respect to the upcoming updates to the participant statements, Mr. Ray confirmed that NRS was planning appropriately for increased call volumes following the updates.

B. Other Administrative Highlights

Ric Whetro discussed other Plan developments. He explained that the Janus Fund and Perkins Mid Cap Value were converted to N class shares in October, resulting in a lower expense ratio for participants. Mr. Whetro then noted that the Town of Islip, having approximately 450 participant accounts, will be converted to the Plan on January 31, 2013.

Mr. Ray then discussed adoptions and enrollments of the Plan. Mr. Ray stated that maintaining adoptions at the same level in 2012 has been difficult for NRS, but that in 2012 enrollments increased 7% over total enrollments in 2011. He noted that the conversions that took place in 2012 account for 15% of the total Plan enrollment in 2012.

IV. STABLE INCOME FUND

David Starr, Marie Mastro and John Bisset of Dwight gave an overview of the performance of the Stable Income Fund. Mr. Starr discussed the final phase of the Stable Income Fund's restructuring and the transfer of assets within the Stable Income Fund alluded to earlier by Mr. Lilly.

Ms. Mastro then turned to a discussion of Dwight's initiatives related to the Stable Income Fund. Ms. Mastro stated that Dwight is reducing the fund's cash position with BlackRock from 10.8% to 6.0%. Ms. Maestro than gave an update of the status of the Cash Manager RFP, noting that the closing date for submission of proposals is December 5, 2012. Ms. Maestro then discussed the performance of the Stable Income Fund. Mr. Bisset briefly gave an overview of market factors affecting the fund and the performance of the underlying managers. In response to a question, Mr. Starr agreed that Dwight would prepare annually for the Board and Staff a report testing the sensitivity of the underlying assets of the Stable Income Fund to changes in interest rates.

V. INVESTMENT CONSULTANT PRESENTATION

Mr. Kline and Ms. McKechnie from Callan provided an overview of the Plan's investment performance. Ms. McKechnie noted especially the lagging performance of the Davis Fund and indicated that Callan planned to meet with the manager of the fund in the next quarter to discuss its performance. Mr. Laverriere questioned whether the Davis Fund's performance could be considered comparable to that of the Janus Fund or the Magellan Fund, and whether the Board should consider terminating the Plan's participation in the Davis Fund. Mr. Kline indicated that Callan was not currently recommending action with respect to the Davis Fund. Ms. Ritter requested that Callan provide the Board with any recommendation regarding action on the assets in the Davis Fund after its meeting with the fund's management. Ms. McKechnie then continued her presentation of the Plan's investment line-up and, after further discussion, completed the review.

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

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Sara Nosaka
Secretary of the Meeting