



NYS DEFERRED COMPENSATION BOARD

www.nysdcp.com

DIANA JONES RITTER

EDWARD M. CUPOLI

ROBERT F. MUJICA

August 26, 2011

Memorandum To: Files
Minutes of the August 26, 2011
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 August 26, 2011, in Conference Room 2C at the offices of Shearman & Sterling LLP, 599 Lexington Avenue, New York, NY 10022. The meeting began at approximately 9:00 a.m. and adjourned at approximately 3:20 p.m. A separate memorandum to the files, also dated August 26, 2011, lists the materials prepared for and referred to during the meeting.

In attendance:

Board Members:	Edward M. Cupoli, Robert F. Mujica
Staff Members (“ Staff ”):	Edward Lilly, David Fischer, Sharon DiMura
Shearman & Sterling LLP (“ Counsel ”):	Kenneth Laverriere, Veronica Wissel, Tiffany Sepulveda, Adrienne Hart (Legal Assistant)
The Bank of New York Mellon Corporation (“ BNYM ”):	Greg Wilcox
Nationwide Retirement Solutions (“ NRS ”):	Ric Whetro, Patrick Ray, Jill O’Callaghan, Anne Arvia, Brenda Anderson, Bina Kumar
Dwight Asset Management Company LLC (“ Dwight ”):	Marie Mastro, David Westbrook, David Starr ¹
Clifton Gunderson LLP (“ Clifton Gunderson ”):	Tom Heseltine
Suffolk County Public Employees Deferred Compensation Plan (“ Suffolk County ”):	Alan Schneider, Debbie Trois
Callan Associates Inc. (“ Callan ”):	Mark Kline, Karen McKechnie
Pax World Management LLC (“ PAX ”):	Chris Brown, Ed Lynch

¹ Mr. Starr attended via conference call.

Edward Cupoli acted as Chairperson and Adrienne Hart acted as Secretary of the meeting. Mr. Cupoli called the meeting to order. Edward Lilly then introduced representatives from Callan Associates Inc. (“*Callan*”) as well as representatives from the Suffolk County Public Employees Deferred Compensation Plan (“*Suffolk County*”), and presented a brief overview of the agenda.

I. APPROVAL OF MINUTES

The Board reviewed the minutes of the public meetings held on May 20, 2011 and June 17, 2011. Robert Mujica moved to approve the minutes. Mr. Cupoli seconded the motion, and the Board unanimously approved the minutes.

II. GENERAL ISSUES

A. Suffolk County Court Case Update

Mr. Lilly presented the Board with an overview of a lawsuit against Suffolk County and the Board by the Suffolk County Association of Municipal Employees (“*AME*”). Mr. Lilly explained that it was his understanding that the Board has been named in the lawsuit due to advice rendered to Suffolk County by Mr. Lilly that individuals employed by Suffolk County Community College and represented by AME were ineligible under the Suffolk County Deferred Compensation Plan because the individuals were not employees of Suffolk County. Alan Schneider from Suffolk County then provided a brief overview of the proceedings associated with the lawsuit to date.

B. October Fee Determination

Mr. Lilly presented the Board with an overview of the anticipated October asset-based fee. Mr. Lilly noted that if the actual October Plan assets are below target, the Board may be asked to increase the fee from 2.25. Mr. Lilly also reminded the Board that the Plan currently has \$1.3 million in the reserve account held as part of the trust for the Plan.

C. IRS Plan Document Update

Mr. Lilly gave an overview of the status of the Internal Revenue Service’s (“*IRS*”) review of the Model Plan and State Plan documents. Veronica Wissel of Shearman & Sterling LLP (“*Counsel*”) discussed the IRS’s comments and Counsel’s revisions to the plan based on the IRS’s comments. Ms. Wissel noted that the comments require minor changes to the Model Plan and State Plan documents, *i.e.*, conforming language to reflect wording provided in the Internal Revenue Code (“*Code*”) and updating provisions of the plans to more closely follow the intention of the Code. Updated versions of the Model Plan and State Plan documents reflecting the IRS’s comments were distributed to the Board at this time. After further discussion and review, Mr. Lilly suggested that the Board review the updated Model Plan and State Plan documents and requested that a motion be made to approve the updated versions of the plan documents. Mr. Mujica made a motion to approve the plan documents as presented to the Board on this date, Mr. Cupoli seconded the motion, and the motion was unanimously approved.

Mr. Lilly then requested that the Board approve two separate motions to delegate the authority of the Board to Staff to make any further technical or non-substantive changes to the Model Plan and the State Plan documents required by the IRS as part of the approval of the plan documents. Mr. Mujica made a motion to delegate the authority of the Board to the Staff to approve any further technical or non-substantive changes to the Model Plan document required by the IRS as part of the review process, Mr. Cupoli seconded the motion, and the motion was unanimously approved. Mr. Mujica then made a motion to delegate the authority of the Board to Staff to approve any further technical or non-substantive changes to the State Plan document required by the IRS as part of the review process, Mr. Cupoli seconded the motion, and the motion was unanimously approved.

D. International Equity Fund Request for Proposals Update

Mark Kline of Callan began by thanking the Board for approving Callan's appointment as the Board's independent adviser. Mr. Kline then discussed the International Equity Fund Request for Proposals ("**RFP**"). Mr. Kline explained that the RFP process is currently in progress and that all submitted questions and responses have been posted to the Board's Web site. Mr. Kline noted that the deadline for responses is September 5, 2011. Mr. Kline further explained the RFP submission, response and interview process stating that Callan will present a recommendation for selection to the Board at the November Board meeting. Messrs. Lilly and Kline then reviewed steps being taken to assure that minority and women owned businesses were made aware of the RFP and given an opportunity to respond. Mr. Lilly indicated that, in accordance with past practices, Staff would attend the initial manager screening interviews, but that Board members were welcome to attend if their schedules permit.

E. Discussion of TIPS

Karen McKechnie of Callan provided the Board with an overview of Treasury Inflation Protected Securities ("**TIPS**"). A general discussion followed regarding the role of TIPS in a defined contribution plan fund line-up. Ms. McKechnie discussed TIPS and other inflation protection alternatives and also reviewed issues related to duration, liquidity, and active and passive management. In response to a question, Ms. McKechnie discussed how a TIPS fund compared to other existing investment alternatives in the Plan and also noted that TIPS options were currently available to participants through the mutual fund window in the Plan. Mr. Cupoli requested an analysis of the various inflation protection alternatives available to the Plan and the benefits and risks associated with each of these alternatives. Mr. Lilly agreed to work with Callan and Nationwide Retirement Solutions ("**NRS**") in providing this analysis. After further discussion, the Board agreed to table any decision regarding adding an inflation protection option to the Plan until it had the opportunity to consider the results of the analysis.

F. Audit Update

Tom Heseltine of Clifton Gunderson LLP ("**Clifton Gunderson**") gave an audit update. Mr. Heseltine began by reviewing the results of the financial audit for the year ended March 31, 2011 and noted that Clifton Gunderson would be issuing an unqualified opinion with respect to the audit.

Mr. Heseltine then reviewed the agreed upon procedures audit and noted that, in comparison to prior agreed upon procedures reports, the latest report had the least number of comments. A general discussion then followed regarding the content of the agreed upon procedures report, with particular focus on those items in the report that were within the control of the Plan's participating employers rather than NRS.

Finally, Mr. Heseltine discussed Clifton Gunderson's preliminary findings related to the performance audit of NRS. After discussion of the preliminary findings, Mr. Lilly noted that NRS would be preparing, in accordance with past practice, a formal response to the Board with respect to the findings in the performance audit and would be presenting that response at the November Board meeting, at which time, the Board would be requested to make a final decision regarding any performance penalties.

III. STABLE INCOME FUND PERFORMANCE PRESENTATION

David Starr (by telephone), Marie Mastro and David Westbrook of Dwight Asset Management Company LLC ("**Dwight**") discussed the Stable Income Fund.

Mr. Starr began the presentation by providing an overview of the Stable Income Fund structure in 2006 as compared to the current structure. Mr. Starr reviewed the current global wrap structure and the separate wrap arrangements that had been put in place more recently to address capacity issues in the wrap market.

Mr. Starr next reviewed the investment policy for the Stable Income Fund and the investment policy for the global wrap portion of the fund. Mr. Starr reviewed the allocation of assets to the short-term,

intermediate and core investment mandates for both the Stable Income Fund as a whole and for the global wrap portion of the fund. Mr. Starr noted that, as a result of the introduction of separate wrap mandates in the Stable Income Fund and other factors, the allocation of assets to the core mandate was more concentrated in the global wrap portion of the fund than for the fund as a whole.

Mr. Starr and Ms. Mastro then reviewed separate requests by two of the global wrap providers, JP Morgan and State Street Bank, to align, based on their reading of their respective wrap contracts, the asset allocation in the global wrap portion of the fund to the investment parameters for the fund as a whole. Mr. Starr and Ms. Mastro then reviewed in detail the modifications being requested by JP Morgan and State Street and the steps that Dwight was taking to address these requests. Discussion ensued regarding Dwight's intention to realign portfolio allocations to address wrap provider concerns. Mr. Starr noted that Dwight's proposed approach to the reallocation would involve substantial in-kind transfers of assets among investment managers and, given the favorable market-to-book ratio of the Stable Income Fund, was not likely to result in any significant cost to the fund. In response to a request, Mr. Starr agreed to provide the Board, at its November meeting, with a detailed analysis of the reallocation and the impact of the reallocation on the Stable Income Fund.

Mr. Westbrook and Ms. Mastro next updated the Board on Dwight's ongoing discussions with ING to provide additional wrap capacity to the Stable Income Fund. A general discussion followed regarding the impact that ING's current proposal would have on the performance and credit quality of the fund.

Mr. Starr then discussed the manager maturity schedule and the renewal schedule for the contracts of the asset managers in the Stable Income Fund. Mr. Lilly noted that changes to the investment guidelines for the Stable Income Fund would be presented to the Board for consideration at the November meeting. In addition, Mr. Lilly noted that the Board would be requested at the November meeting to decide whether to go to an RFP for new managers or to extend expiring manager contracts.

Ms. Mastro next provided an overview of the Stable Income Fund noting portfolio performance, cash flow, manager highlights, market-to-book ratio and other related information. Mr. Lilly asked Dwight whether anything in the Stable Income Fund presented a cause for concern, and Ms. Mastro responded that there is currently no cause for concern.

Dwight left the meeting at this time.

IV. ADMINISTRATIVE SERVICE AGENCY PRESENTATION

Anne Arvia of NRS gave an overview of her work with NRS, a corporate profile of NRS and the economic outlook of NRS. Patrick Ray continued with a presentation of the Roth 457 option and Bina Kumar discussed how the Roth 457 option is being received by current and potential participants. Mr. Ray next discussed the Web Redesign Project, noting that the new design will be rolled out in the 1st quarter of 2012. Brenda Anderson provided an update on the new social media strategy, and a discussion of mobile options and capabilities ensued. Jill O'Callaghan presented the results of NRS's retention survey, in which 432 letters were mailed and 187 responses were received. A general discussion of the retention survey ensued.

Ms. Arvia and Ric Whetro left the meeting at this time.

Mr. Ray then provided an overview of the fee disclosure requirements under ERISA applicable to private sector plans. Mr. Ray noted that, although ERISA does not apply to the Plan, Staff and NRS were taking appropriate steps to cause the Plan to comply with ERISA's requirements. NRS and Staff then reviewed the proposed fee disclosure strategy for the Plan.

V. INVESTMENT CONSULTANT PRESENTATION

Mr. Kline and Ms. McKechnie gave an overview of Callan's organizational structure as well as Callan's experience with institutional investors. Mr. Kline explained Callan's conservative approach to investing, using a client-focused consulting model. Mr. Kline then presented Callan's Quarterly Review to the Board, including an Investment Manager Performance Monitoring Summary Report. A discussion of various individual managers ensued.

VI. PORTFOLIO MANAGER PRESENTATION

Chris Brown and Ed Lynch of Pax World Management LLC ("**PAX**") gave a presentation of the Pax World Balanced Fund to the Board. Mr. Brown provided an overview of PAX's investment philosophy, the Balanced Fund's investment process and financial performance. Mr. Brown then discussed portfolio construction and risk management. A discussion of PAX's presentation ensued.

PAX representatives left the meeting at this time.

VII. ADJOURNMENT

There being no further matters for discussion, Mr. Cupoli moved to conclude the meeting. Mr. Mujica seconded the motion, and the Board unanimously approved the motion. The Board meeting was adjourned at approximately 3:20 p.m.