

# **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 2011

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 ("RFP") 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.

This Board's MWBE Policy relates to the Board's 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 two RFPs during the 2011 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.

## **Stable Value Structure Manager**

The Stable Income Fund (the “Fund”) is one of the thirty-two investment options available to Plan participants. The Board issued an RFP for a Stable Value Structure Manager on January 26, 2011. The RFP required that responses be received no later than February 23, 2011. The following describes the Fund as of December 31, 2010.

### **Background Information**

Approximately 140,000 Plan participants have allocated some or all of their assets in their Plan accounts to this Fund. Total assets in the Fund were approximately \$5.5 billion which represented 43% 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 88% 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 3% of the Fund and were invested with the Metropolitan Life Insurance Company and New York Life Insurance Company. The cash buffer portion of the Fund comprised 9% of the Fund and is managed by BlackRock.

The overall management of the Fund is administered by a Stable Value Structure Manager (“SVSM”). The SVSM is responsible to provide investment advice to the Board regarding the Fund, to assist the Board in the analysis of Requests for Proposals and to make recommendations related to investment managers and services to the Fund, to recommend and implement proper allocation of Fund assets between managers and among investment management duration strategies, the selection of GICs and benefit responsive wrap providers, and to provide general and daily management of the Fund.

### **RFP Process**

Board Staff and the Board’s Independent Consultant undertook a review of firms that provide or may provide the SVSM services being sought in the RFP to determine if there were any MWBE Business Enterprises providing or may provide SVSM services. Board Staff and the Board’s Independent Consultant were unable to identify any MWBE Business Enterprises that provided or may provide the SVSM services required by the Plan.

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.

There were only two responses to the RFP. Neither firm was an MWBE Enterprise.

## **International Investment Managers**

The Plan's International Equity Fund - Active Portfolio (the "Fund") is an actively managed portfolio comprised of five international investment managers. The Board issued an RFP for international investment management on July 27, 2011. The RFP required that responses be received no later than September 2, 2011. The following describes the Fund as of June 30, 2011.

### **Background Information**

Approximately 60,000 Plan participants have allocated some or all of their assets in their Plan accounts to this Fund. Total assets in the Fund were approximately \$505 million which represented 3.9% of total Plan assets.

Two of the Fund's five managers invest in a value mandate, one in a growth mandate, and one in a core mandate. The fifth manager invests in a passive/index mandate. This combination of these five managers provides a style neutral international investment portfolio.

### **RFP Process**

The Board's Staff and the Independent Consultant undertook a review of firms that provide or may provide the international investment management services that were being sought in the RFP to determine if there were any MWBE Business Enterprises currently providing or may provide international investment management services. The Board's Staff and the Independent Consultant identified three MWBE Business Enterprises that provide international investment management or may be able to provide the international investment management services required by the Plan. 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 and advertised in *Pensions & Investments*, a national trade magazine specializing in pension related issues to assure wide circulation of the RFP.

52 financial organizations responded to the RFP with 63 proposals (some managers submitted proposals in more than one investment mandate) on or before the closing date of September 2, 2011. Five financial organizations submitted proposals for an index mandate, 29 for a core mandate, 12 for a growth mandate, and 17 for a value mandate. Each of the three identified MWBE Business Enterprises submitted a proposal in response to the RFP.

### **RFP Analysis**

The Board's Independent Consultant conducted a thorough multi-step analysis of all responses to the RFP. The initial analysis eliminated 1 passive manager, 2 growth managers, 16 core managers and 7 value managers. The exclusions were primarily because the proposals

demonstrated less competitive investment performance, fundamental concerns related to management and investment style continuity or because the proposal was not considered responsive to the strategies requested in the RFP.

Two of the MWBE Business Enterprises that responded to the RFP were eliminated at this stage due to poor performance and/or higher fees in relation to the other responding managers.

The third manager that responded to the RFP, EARNEST Partners, was selected as a finalist and invited to be interviewed by the Board's Staff and Independent Consultant.

The Plan's International Investment Policy requires that the investment managers invest in companies domiciled in those countries included in the EAFA benchmark but permits the investment managers to allocate up to 20% of their portfolio to companies domiciled in those countries designated as emerging markets. The data submitted by EARNEST Partners indicated that the manager generally invests approximately 30% of assets in emerging markets which was well above the limitation imposed by the Board for the Fund and its managers. Board Staff and its Investment Consultant endeavored to determine the extent to which the performance of EARNEST Partners was a result of the investments in emerging markets. It was determined that the emerging markets investments was a significant portion of the demonstrated return and was not able to determine an estimate of performance without such a large allocation to emerging markets. Thus, the Independent Consultant could not recommend the selection of EARNEST Partners as an investment manager in the structure of the Fund.

### **Current MWBE Enterprises 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 \$400 million has been allocated to EARNEST Partners, which represents 4.1% of the assets of the Stable Income Fund