

# **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 2014

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/activities.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 two RFPs during the 2014 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 31 investment options available to Plan participants. The Board issued an RFP for a separately managed fixed income portfolio or an insurance company separate account funding agreement on February 4, 2014. The RFP required that responses be received no later than March 14, 2014.

### **Background Information**

As of December 31, 2013, approximately 136,000 Plan participants allocated some or all of their assets in their Plan accounts to this Fund. Total assets in the Fund were approximately \$6.4 billion which represented 38% of total Plan assets.

At the time of the RFP, the Fund was comprised of three investment categories: separately managed fixed income portfolios (bond portfolios), insurance company separate account funding agreements (insurance company separate accounts), and a cash buffer account. Bond portfolios comprised 38.1% of the fund and are managed by EARNEST Partners, Goldman Sachs Asset Management, and BlackRock. Insurance company separate accounts comprised 57.8% of the Fund and are managed by New York Life Insurance Company, ING, and MassMutual. The separate account cash buffer portion of the Fund, managed by BlackRock, comprised 4.1% of assets.

### **RFP Process**

Board Staff, the Board’s Stable Value Structure Manager (“SVSM”), and the Board’s Independent Consultant (“Callan”) undertook a review of firms that provide or may provide separate account investment management and/or insurance company separate accounts to determine if there were any MWBEs providing or who may provide these services. Five firms were identified and were included in the 21 firms solicited for the 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.

Two MWBE firms responded to the RFP. These were EARNEST Partners and Payden & Rygel. During the evaluation process conducted by the SVSM, EARNEST Partners, who already manages a significant portion of the assets in the fund, was excluded as a finalist. They did not provide additional diversification and were highly correlated to the existing managers. For Payden & Rygel, a majority woman owned firm, the products offered were managed to a benchmark that was too dissimilar to the mandate requested.

## **II. Trustee/Custodian**

Section 457 of the Internal Revenue Code requires that all assets in public-employer sponsored deferred compensation plans be held in trust for the exclusive benefit of plan participants and beneficiaries. The Plan requires the services of a trustee/custodian to serve as the Plan's trustee and provide custodial services. The services include:

- Maintenance of all Plan accounts and recording of all Plan assets;
- Receipt of all deferrals from the State and participating employers on behalf of Plan participants;
- Processing of distribution payments to eligible Plan participants and payments of all invoices for Plan services;
- Settling all investment option trades;
- Acquiring title to and holding all Plan securities in the non-mutual fund investment options; specifically the Stable Income Fund and International Equity Funds;
- Acquiring title to and holding all mutual fund shares; and
- Coordination with other services providers, especially the investment options managers and the administrative service agency.

These services are typically performed by large, publicly-traded banking institutions whose shares are held by many investors worldwide.

The Board issued an RFP for Trustee/Custodian on August 5, 2014. Responses were to be received no later than September 19, 2014.

### **RFP Process**

The Board's Independent Investment Consultant ("Callan") and Board Staff undertook a review of the trustee/custodian marketplace to determine if there were any MWBEs currently providing the required services. The review yielded no firms that were designated as MWBE.

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 or the services being sought, or responded to the RFP.

### **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 \$415 million has been allocated to EARNEST Partners, which represents 6.56% of the assets of the Stable Income Fund.