



**NYS DEFERRED
COMPENSATION
BOARD**
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DIANA JONES RITTER
EDWARD M. CUPOLI
ROBERT F. MUJICA

November 14, 2014

Memorandum To: Files

Minutes of the November 14, 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 November 14, 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 3:05 p.m. A separate memorandum to the files, also dated November 14, 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 ”):	David Fischer, Sharon Lukacs, Peter Drao
Shearman & Sterling LLP (“ S&S ”)	Kenneth Laverriere, Regina Park, Rebecca Hayes
The Bank of New York Mellon (“ BNYM ”):	David Blakeley
GSAM Stable Value, LLC (“ GSAM ”):	John Axtell, Marie Mastro, John Bisset, Lisa Rotenberg, Ryan Lavin
Callan Associates Inc. (“ Callan ”):	Karen McKechnie
Nationwide Retirement Solutions (“ NRS ”):	Jeff Stein, Jill O’Callaghan, Patrick Ray, Renee Spencer, Brenda Anderson, Katie Moore
CliftonLarsonAllen (“ Clifton ”):	Thomas Rey
Federated Government Bond Fund (“ Federated ”):	Dan Berry, Todd Abraham

NEW YORK STATE DEFERRED COMPENSATION BOARD
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Other Attendees: Robert Steyer

Diana Jones Ritter acted as Chairperson and Rebecca Hayes 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 August 26, 2014. Ms. Ritter moved to approve the minutes and the Board unanimously approved the minutes.

II. 2015 PLANNING ISSUES

David Fischer of Staff reviewed significant events of 2014, which included the selection of JPMorgan Investment Management Inc. (“*JPMorgan*”), Wells Capital Management, Inc. (“*Wells*”) and Income Research + Management (“*IR+M*”) as investment managers of the Stable Income Fund; renewal of Clifton as the Plan’s auditor; and the removal of Eaton Vance’s Large Cap Value Fund (“*Eaton Vance Fund*”) as an investment option through the Plan and mapping of the assets from the Eaton Vance Fund to the T. Rowe Price Equity Income Fund.

With respect to 2015 planning issues, Mr. Fischer observed that the annual plan contribution limits are increasing to an \$18,000 annual limit and a \$6,000 additional limit for the participants who are 50 years or older. Mr. Fischer also indicated the Staff’s desire for a stronger relationship with the New York State and Local Employee Retirement System, as well as their interest in reinforcing relationships with various government agencies. The Board expressed its support of the Staff’s outreach efforts. The Board stated that it is interested in conducting a comprehensive assessment of the Plan’s operations, administration and investment structure with the advice of relevant experts. Karen McKechnie of Callan stated that Callan will work with Mr. Fischer to arrange an appropriate venue for the Board.

At approximately 9:20 a.m., the Board went into executive session with Staff, S&S and Callan to discuss the recommendation of the custodian and trustee, results of the Performance Audit of NRS and other issues relating to the Deferred Compensation Plan for Employees of the State of New York and Other Participating Public Jurisdictions (the “*Plan*”).

The Board returned from executive session at approximately 11:50 a.m. and the meeting went back into public session.

III. 2014 PLAN ISSUES

A. Proposed 2015–2016 Budget

Mr. Fischer gave an overview of the Plan’s expenses and revenues from participant plan-level fees for the 2015-2016 fiscal year. Mr. Fischer indicated that the Plan’s estimated expenses for the 2015-2016 fiscal year are at \$10,452,096, representing a 3.5% increase from the adopted 2014-2015 budget. Mr. Fischer explained that most of the increase in expenses is attributable to the higher administrative fees paid to NRS due to an increase in the number of Plan participants. In addition, Mr. Fischer recommended that approximately \$800,000 from the deferred expense account be used as revenue offset for fiscal year 2015–2016, which would result in an unencumbered estimated balance of \$1.78 million by the end of the fiscal year. Mr. Fischer emphasized that this approach was consistent with the Board’s policy to maintain

a balance of between \$1.5 and \$2.0 million for contingencies.

B. Selection of Trustee/Custodian

Mr. Fischer noted that the current term of trustee and custodian services provided by BNYM will expire on March 31, 2015, and reported that Staff and Callan have evaluated potential candidates for the trustee position based on a Request for Proposals, interviews with the candidates and their best and final fee proposals. The Board stated that after extensive discussion in Executive Session, it has decided to defer the selection of a trustee and custodian pending further interviews with the finalists.

C. Plan Amendment Regarding Roth Loans

Mr. Fischer discussed amendments to the Plan and the Model Deferred Compensation Plan for Employees of [Name of Public Employer] (the "*Model Plan*") and the resolutions approving the amendments that were provided to the Board prior to the public meeting. Mr. Fischer explained that the resolution to adopt an amendment to the Plan would allow loans to be sourced, upon election of participants, either (i) entirely from a pre-tax account or (ii) on a pro-rata basis from Roth and pre-tax accounts. Mr. Fischer also described the resolution to adopt an amendment to the Model Plan that would require a deferred compensation committee to elect the source for the plan loans to be (i) a pre-tax account, (ii) Roth and pre-tax accounts on a pro-rata basis or (iii) upon election of participants, either entirely from a pre-tax account or on a pro-rata basis from Roth and pre-tax accounts. After discussion, a motion was made to adopt the resolutions and the amendments to the Plan and the Model Plan as submitted to the Board, and the motion was carried.

D. Performance Criteria Audit

Mr. Fischer reported that Clifton had completed its Performance Audit for NRS's services for the 2013-2014 fiscal year, and the results were summarized in the memorandum provided by Staff to the Board. Mr. Fischer noted that the Board and Staff discussed the Staff's recommendation on the penalties in Executive Session. A motion was made to impose a total of \$184,050 in penalties, and the motion was unanimously approved.

IV. ADMINISTRATIVE SERVICE AGENCY PRESENTATION

Jill O'Callaghan of NRS and Thomas Rey of Clifton reported that they have been working together to review the current audit and assurance services provided by Clifton and assess any shortfalls. Mr. Rey provided an overview of the current auditing framework of the Plan, including the Service Organization Controls Report, Financial Statement Audit, Agreed Upon Procedure ("*AUP*") Audit and Performance Criteria Audit. Mr. Rey discussed a number of suggested enhancements to the assurance services, particularly with respect to the AUP Audit and Performance Criteria Audit. Mr. Rey emphasized that the Board has the flexibility to determine and adjust the AUP and the performance criteria depending on the Plan's needs and risk assessment. The Board then discussed the content of Mr. Rey's presentation.

Jeff Stein of NRS provided a description of NRS's mission for the Plan and NRS's commitment to providing services to the Plan, with a particular focus on the areas of quality assurance, technology and employees of NRS. Katie Moore of NRS described the enhancements to the eDelivery system that allows paperless delivery of quarterly statements and confirmations to Plan participants. She also reported that

NRS is continuing to improve self-service functions on the Plan's Web site. She also repeated that NRS has contracted a redundant service provider for telecommunications for the Troy, NY office who will be available in the event of any service interruption by the current service provider. Renee Spencer of NRS provided a brief update of the Plan's marketing efforts. Patrick Ray of NRS reported the Plan's success in increasing Plan enrollments, and also remarked that the annual deferral amount by Plan participants is 68% higher than the industry average.

V. STABLE VALUE STRUCTURE MANAGER PRESENTATION

Marie Mastro of GSAM provided an update on the transition to the three managers for separately managed fixed income portfolios that were approved by the Board on May 16, 2014: Wells Capital, IR+M and JPMorgan. The managers replaced the two managers whose contracts with the Board expired in October 2014.

Ms. Mastro then provided an overview of the performance of the Stable Income Fund. As of September 2014, Plan assets in the Stable Income Fund were valued at over \$6.3 billion. Ms. Mastro observed that many Plan participants have been withdrawing cash from the Stable Income Fund into equity investment options since October 2013. To the extent that more participants retire and withdraw more cash from the Stable Income Fund, the Plan will need to consider allocations to provide a more regular source of liquidity. GSAM will continue to monitor the cash outflows and the number of retirement eligible participants to consider whether to recommend modified allocations. Finally, John Bisset of GSAM provided a brief overview of the current fixed income market.

VI. INVESTMENT CONSULTANT PRESENTATION

Ms. McKechnie then gave a brief review of the performance of the Plan's other investment options and then provided an overview of the Federated Government Bond Fund in anticipation of the presentation by representatives of the fund.

VII. PORTFOLIO REVIEW: FEDERATED GOVERNMENT BOND FUND

Todd Abraham of Federated Government Bond Fund provided a brief overview of the fund's structure, highlighted the fund's experienced team, and described the fund's investment strategy. Mr. Abraham stated that the fund is a 100% U.S. government fund, including treasuries, agency debts and agency-issued mortgage-backed securities. Mr. Abraham then described macroeconomic factors that affect the performance of the fund, including the debt-driven expansion of the U.S. economy, unemployment and inflation trends and residential and commercial mortgage spreads. In response to the Board's questions, he stated that the fund is composed of 29.3% in agency securities and 30.7% in U.S. government agency commercial mortgage-backed securities. Mr. Abraham further described the fund's duration management and sector allocation. A general discussion then followed regarding Mr. Abraham's presentation. After answering a number of questions from the Board, Mr. Abraham left the meeting.

VIII. ADJOURNMENT

There being no further issues to discuss, the meeting was adjourned at approximately 3:05 p.m.

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Rebecca Hayes
Secretary of the Meeting