



NYS DEFERRED COMPENSATION BOARD

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DIANA JONES RITTER

EDWARD M. CUPOLI

September 3, 2009

Memorandum To: Files

Minutes of the September 3, 2009
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 September 3, 2009, in Conference Room 2E 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 2:30 p.m. A separate memorandum to the files, also dated September 3, 2009, lists the materials prepared for and referred to during the meeting, a copy of which is included as an attachment hereto.

In attendance:

Board Members:	Diana Jones Ritter and Edward M. Cupoli
Staff Members:	Edward Lilly, David Fischer, Sharon DiMura, Craig Dickinson, and David Natoli
Shearman & Sterling LLP:	Kenneth Laverriere, Elizabeth Roseman, Veronica Wissel, and Lee Lowenthal (Legal Assistant)
Nationwide Retirement Solutions (“ NRS ”):	Ric Whetro, Tom Weber, Brenda Anderson, Patrick Ray, and Jill O’Callaghan
Evaluation Associates LLC: (“ EAI ”)	Linda Schlissel, Kathy Bajorinas, and Andrew Jaensch
The Bank of New York Mellon: (“ BNYM ”)	Mary Dunleavy, Greg Wilcox, Jim Wenstrom, Tom Fox, and Kathryn Danella
Dwight Asset Management: (“ Dwight ”)	Marie Mastro and David Starr
Clifton Gunderson:	Thomas Heseltine
Tradewinds:	Peter Boardman, Brian G. Morandi, and George P. Webb

Diana Jones Ritter served as Chair and Lee Lowenthal acted as Secretary of the meeting. Ms. Ritter called the meeting to order and Edward Lilly presented a brief overview of the agenda.

I. EXECUTIVE SESSION

Ms. Ritter moved that the Board enter into executive session to discuss a report by the Alabama Securities Commission and its impact on NRS and the NRS relationship. Ms. Ritter noted in her motion that the report raised potential contracting and/or litigation questions. Edward Cupoli seconded the motion. The Board then conducted its business in executive session. Following the conduct of such business, Ms. Ritter moved to adjourn the executive session, which was seconded by Mr. Cupoli, and the Board returned to public session.

II. APPROVAL OF MINUTES

After reviewing the minutes of the public meeting and executive session of the Board held on June 12, 2009, and July 8, 2009, respectively, Mr. Cupoli moved to approve the minutes, Ms. Ritter seconded the motion, and the Board unanimously approved the minutes.

III. REVISED INVESTMENT POLICY

Mr. Lilly presented Staff's recommended modifications to the Board's current investment policy. A general discussion then followed regarding the content of the proposed policy. Following this discussion, it was agreed that any action approving the policy would be tabled until the next meeting, so that the Board members would have sufficient time to review the terms of the policy in light of the discussion at the meeting and so that the Board's staff and advisers would have sufficient time to answer any questions from the Board regarding the policy.

IV. PBHG DISTRIBUTION PLAN OVERVIEW

Mr. Lilly then presented the Board with a plan to distribute settlement funds according to the guidelines as set forth by PBHG Distribution Plan Number Two. After discussion, Mr. Cupoli moved to approve the distribution plan, Ms. Ritter seconded the motion, and the Board unanimously approved the distribution plan.

V. SECURITIES LENDING UPDATE

Mr. Lilly discussed with the Board the recommendation from BNYM to increase the Plan's securities lending capacity to \$600 million, from the current level of \$350 million, to provide additional, incremental revenue to the stable value and international equity investment options in the Plan. Tom Fox and Kathryn Danella of BNYM presented their assessment of the recent Federal government measures to increase liquidity in the debt markets and the effect these measures have had in stabilizing the markets. Mr. Fox described BNYM's current securities lending program and its current application to the Plan and recommended that the Board consider increasing the securities lending limits applicable to the Plan. Mr. Lilly suggested that, if the Board agreed with BNYM's recommendation, the Board approve an increase in the amount of securities committed to the program to \$600 million, as recommended by BNYM. A general discussion then followed regarding the presentation from BNYM. In response to a question, David Starr of Dwight noted that Dwight was proceeding cautiously with regard to its own securities lending program and had not resumed securities lending in certain other portfolios. In response to a question, Linda Schlissel of EAI stated that there has been an increase in the number of her other clients that have been restarting or increasing the amount of their securities lending programs. Ms. Schlissel indicated that EAI was generally comfortable with BNYM's recommendation to increase the

amount of Plan securities available for securities lending. A general discussion then followed regarding the risks and benefits of a securities lending program and, in response to a series of questions from the Board, the staff and the advisers present discussed the impact that the securities lending program would likely have on the investment return for the affected investment options in comparison to the potential losses that could be incurred under the program. After further discussion, it was agreed that any action to increase the amount of securities available for securities lending be tabled until the next Board meeting so that the Board's staff and advisors would have sufficient time to answer questions from the Board.

VI. THE BANK OF NEW YORK MELLON UPDATE

Mary Dunleavy of BNYM informed the Board of the successful completion of the transition of accounting platforms to the Mellon Bank platform. Ms. Dunleavy stated that the transition was performed on Tuesday, September 1, 2009, and that NRS representatives were very helpful in working with BNYM to ensure a smooth transition. Ms. Dunleavy also informed the Board of potential overcharges to the Plan for asset management in certain Plan accounts that require cash to be invested in a STIF account, but were invested in an alternative STIF account. The alternative STIF account had an investment management fee of 20 basis points while the approved STIF account had a 12 basis point investment management fee. BNYM deposited \$170,000 into the Plan's Deferred Expense Account on August 19, 2009, representing the 8 basis point difference in the asset management fees. BNYM will conduct further research to determine whether the return in the alternative account was in excess of the return in the approved STIF account. Ms. Dunleavy indicated that BNYM would follow up with Mr. Lilly on that research and Mr. Lilly expressed his satisfaction with BNYM's actions with respect to this issue.

VII. CLIFTON GUNDERSON AUDIT REPORT

Thomas Heseltine of Clifton Gunderson provided the Board with an overview of the three audit categories (Financial Audit, Agreed Upon Procedures Audit, and Performance Audit), and the results of each of those audits. Mr. Heseltine indicated that the Financial Audit resulted in an unqualified opinion by Clifton Gunderson with no material weaknesses identified. The Agreed Upon Procedures Audit found no systematic issues with NRS, but did discover a few deviations that NRS is aware of and is working to correct. Mr. Heseltine then reviewed the key issues with the Performance Audit and indicated that an updated version would be sent to Mr. Lilly shortly. A general discussion then followed regarding the content of Mr. Heseltine's presentation.

VIII. DWIGHT ASSET MANAGEMENT PRESENTATION

Marie Mastro of Dwight then discussed Dwight's recommendations with regard to the allocation of assets in the Stable Value Fund ("*Fund*"). Ms. Mastro recommended that \$600 million be allocated to Jennison Associates, representing approximately \$350 million of maturing proceeds from three finite GICs and approximately \$250 million from the BlackRock cash account. Ms. Mastro noted that Prudential had agreed to wrap the \$600 million transfer to Jennison. Ms. Mastro informed the Board that the Prudential wrap fee is 25 basis points, but would be reduced to 20 basis points, if the Board is willing to accept certain additional contract provisions relating to the imposition of an equity wash, if certain triggering events occur. After a detailed discussion of the triggers and the likelihood of triggering the equity wash, the Board agreed to pursue the lower fee with the additional contract provisions relating to the equity wash. Mr. Cupoli moved to approve moving the maturing proceeds to Jennison, Ms. Ritter seconded the motion, and the Board unanimously approved the allocation of the funds to Jennison.

Ms. Mastro then provided a general update on the status of the Fund and informed the Board that the market-to-book ratio of the Fund is near 100%, which demonstrates the strength of the Fund and the increase in value that has been experienced by the Fund over the last few months.

Mr. Starr then updated the Board with respect to certain recent personnel changes at Dwight, including the addition of a new cash management team and departures due to a limited and targeted reduction in work force of 13 individuals from a variety of departments within Dwight. Mr. Starr noted, however, that none of the departing individuals were responsible for providing service to the Plan.

IX. NATIONWIDE RETIREMENT SOLUTIONS PRESENTATION

Patrick Ray informed the Board that NRS has been making an increased effort to meet with local employers and that NRS representatives have met with approximately 24 local employers in the last three months. Mr. Ray also highlighted the number of retirement seminars that NRS had hosted and the number that NRS intends to hold in the short term. Mr. Ray also noted that enrollments were down and seemed to be occurring at the State level rather than at the local employer level.

Jill O'Callaghan then provided the Board with an update on the HELPLINE statistics, and noted that the HELPLINE achieved an 86% aggregate service level for the most recent assessment period and that the aggregate call volume is returning to normal.

X. EXTENSION OF EVALUATION ASSOCIATES LLC CONTRACT

Mr. Lilly recommended that the Board approve an extension of EAI's contract in light of EAI's continued commitment to the Plan and its service to the Board and the Plan. Mr. Cupoli moved to approve EAI's contract extension, Ms. Ritter seconded the motion, and the Board unanimously approved the extension of EAI's contract.

XI. TRADEWINDS PRESENTATION

Peter Boardman and Brian Morandi of Tradewinds then provided an overview of the Tradewinds investment strategy, recent developments affecting the organization, and the performance of the portfolio managed by Tradewinds for the Plan. A general discussion then followed regarding the contents of this presentation.

XII. ADJOURN

There being no further matters for discussion, Ms. Ritter moved to conclude the public meeting. Mr. Cupoli seconded the motion, and the Board unanimously approved the motion. The Board meeting was then adjourned at approximately 2:30 p.m.

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Lee Lowenthal
Secretary of the Meeting