



NYS DEFERRED COMPENSATION BOARD

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DIANA JONES RITTER

EDWARD M. CUPOLI

JOSEPH F. PENNISI

February 25, 2011

Memorandum To: Files

Minutes of the February 25, 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 February 25, 2011, in Conference Room 2J/K 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 2:15 p.m. A separate memorandum to the files, also dated February 25, 2011, lists the materials prepared for and referred to during the meeting.

In attendance:

Board Members:	Diana Jones Ritter, Edward M. Cupoli, Joseph F. Pennisi
Staff Members (" Staff "):	Edward Lilly*, David Fischer, Sharon DiMura
Shearman & Sterling LLP (" Counsel "):	Kenneth Laverriere, Veronica Wissel, Adrienne Hart (Legal Assistant)
The Bank of New York Mellon (" BNYM "):	Bill Claxton, Greg Wilcox, Kevin P. Norton
Nationwide Retirement Solutions (" NRS "):	Ric Whetro, Patrick Ray, Jill O'Callaghan, Keri Metres, Eric Stevenson, Brenda Anderson
Evaluation Associates LLC (" EAI "):	Linda Schlissel, Kathy Bajorinas
Dwight Asset Management (" Dwight "):	Marie Mastro, David Starr
Davis Advisors:	Steven Ralff
Plan Participant:	Ashutosh Vyas

*Edward Lilly participated via teleconference.

Diana Jones Ritter acted as Chairperson and Adrienne Hart acted as Secretary of the meeting. Ms. Ritter called the meeting to order and presented a brief overview of the agenda. Edward Lilly joined the meeting via teleconference at this time.

I. APPROVAL OF MINUTES

The Board reviewed the minutes of the public meeting held on January 7, 2011. Ms. Ritter moved to approve the minutes. Joseph Pennisi seconded the motion, and the Board unanimously approved the minutes.

II. GENERAL ISSUES

A. State Plan and Model Plan Budgets

David Fischer presented the Board with an overview of the proposed 2011-12 administrative budget for the Plan. Mr. Fischer noted that the final proposed budget anticipates expenses of \$9,683,370, which represents an increase of 1.6% over the prior fiscal year. Mr. Fischer advised that under the proposed budget, \$1 million of the current reserve held in the deferred expense account would be used to offset the 2011-12 budget, and the asset-based participant fee would be lowered to 4.5 basis points. In addition, the Plan would retain a balance of \$1.3 million in the deferred expense account. Discussion ensued regarding the need to keep the reserve as low as possible while still providing protection against any unexpected short term cash flow needs of the Plan. The Board determined that the reserve amount proposed was reasonable in light of the size of the Plan. At this time, Ms. Ritter moved to approve the proposed 2011-12 administrative budget for the Plan and the reduction to an annual 4.5 basis point asset-based fee. Mr. Pennisi seconded the motion, and the motion was adopted.

Mr. Fischer then presented the Board with an overview of the proposed appropriation from the New York State General Fund – Board Administration, for Board activities not relating to the State Plan, including Model Plan oversight and activities. Mr. Fischer explained that the total appropriation of \$114,000 is the same as the prior year's appropriation, but that the New York State Division of Budget has proposed an initial cash ceiling on expenditures of \$52,000. Mr. Lilly noted that the initial cash ceiling is insufficient to cover Board expenses not relating to the State Plan, and that he continues to discuss the ceiling with the Division of Budget. Discussion ensued regarding the breakdown of the portion of the Board's overhead expenses that is allocated to the State Plan budget and to the General Fund appropriation. The Board noted the importance of ensuring that the shared expenses are allocated appropriately between the State Plan budget and the General Fund appropriation budget, and determined that the current allocation was appropriate. Ms. Ritter directed Staff to take necessary steps with the Division of Budget to increase the cash ceiling.

B. Audit Rule Update

Next, Mr. Fischer gave the Board an update on the amendments to the Board's Rules and Regulations relating to plan audits. Mr. Fischer noted that Staff has published the proposed rule, and a public hearing is scheduled for March 25, 2011 at the Board's office. Public comment will be accepted until April 11, 2011. Staff noted that the Board has received several inquiries about the rule proposal, but no negative comments have been received.

III. INTERNATIONAL FUND STRUCTURE

Linda Schlissel of Evaluation Associates LLC ("*EAI*") presented the Board with a broad overview of the history, structure and purpose of the Plan's international investment options. Ms. Schlissel reviewed the benefits of separate accounts in the international fund structure, including control over investment guidelines, a faster replacement of underperforming managers, and lower fees. Ms. Schlissel also discussed the

challenges posed by a separate account structure, including communications strategy, lack of name recognition, reduced transparency and availability of real time updates and fund commentary. Ms. Schlissel recommended that the Board first focus on whether to retain, or change, the structure of the international fund, and that performance can be addressed on a manager-by-manager basis after the Board has data from a full market cycle. A discussion ensued regarding manager performance and the international fund structure. Mr. Pennisi asked Nationwide Retirement Solutions (“*NRS*”) to compile data on participation in the international fund. Ms. Schlissel was asked to work with Staff to develop a recommendation for what, if any, changes should be made to the international fund structure.

IV. EXECUTIVE SESSION

Ms. Ritter moved that the Board enter into Executive Session for a discussion of contractual issues related to the Stable Income Fund (the “*Fund*”). Edward Cupoli seconded the motion and the motion passed. The Board then conducted its business in Executive Session, after which Ms. Ritter moved to adjourn the Executive Session, which motion was seconded by Mr. Cupoli and approved. The Board returned to public session.

V. EXTENSION OF NISA CONTRACT

Ms. Ritter noted that the investment management contract with NISA expires on September 30, 2011. Mr. Pennisi made a motion to extend the NISA contract for one year for the following reasons: (1) the availability of benefit responsive wrap contracts is constrained in the current environment, (2) changes in investment management contracts would provide wrap managers leverage in demanding changes to wrap contract fees and investment policy provisions, (3) an extension of a current investment management contract would not require wrap manager approval or changes to the global wrap structure, (4) NISA’s performance under the contract has been satisfactory and exceeds the benchmark return, and (5) that it would be in the best interests of Plan participants to extend the NISA contract. Ms. Ritter seconded the motion, and it was unanimously approved by the Board.

VI. NRS PRESENTATION

Patrick Ray provided the Board with an update on the implementation of Roth designated accounts and in-plan Roth rollovers. Following this discussion, Ric Whetro presented the Board with administrative highlights from the last quarter, noting that the Plan had over \$12 billion in assets and over 190,000 participants at the end of January. Jill O’Callaghan discussed HELPLINE service levels, citing January 2011 as the second highest January with respect to call volume. Mr. Ray also reviewed outreach and enrollment efforts. It was noted that the Plan’s Missing Piece campaign will receive an Eddy Award from *Pensions & Investments* magazine in the category of “Initial Education.”

Mr. Lilly and Ms. Ritter left the meeting at this time.

VII. STABLE INCOME FUND PRESENTATION

Marie Mastro of Dwight Asset Management (“*Dwight*”) gave an update on Fund performance as of December 31, 2010. Ms. Mastro provided the Board with an overview of the diversification of the Fund, cash flow, and the contract maturity schedule. A discussion ensued regarding Fund performance and maturing contracts.

VIII. EAI PRESENTATION

Kathy Bajorinas provided the Board with a review of the performance scorecards, as of December 31, 2010, for the Plan's investment options. A discussion followed regarding the performance of these funds.

IX. PORTFOLIO MANAGER REVIEW: DAVIS ADVISORS NEW YORK

Steven Ralff gave an overview of Davis' management, strategy, and investment philosophy. Mr. Ralff described Davis' current portfolio characteristics, sector breakdown, top holdings and performance. A discussion ensued, in which members of the Board asked Mr. Ralff questions regarding his presentation.

X. ADJOURNMENT

There being no further matters for discussion, Mr. Cupoli moved to conclude the meeting. Mr. Pennisi seconded the motion, and the Board unanimously approved the motion. The Board meeting was adjourned at approximately 2:15 p.m.