



# NYS DEFERRED COMPENSATION BOARD

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DIANA JONES RITTER  
EDWARD M. CUPOLI  
JOSEPH F. PENNISI

July 23, 2010

**Memorandum To:** Files

Minutes of the July 23, 2010  
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 July 23, 2010, in Room 124 at the Empire State Plaza Concourse – North, Albany, NY 12223. The meeting began at approximately 2:00 p.m. and adjourned at approximately 2:35 p.m. A separate memorandum to the files, also dated July 23, 2010, 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<sup>1</sup>, Edward M. Cupoli, Joseph F. Pennisi

Staff Members ("**Staff**"): Edward Lilly, David Fischer, Craig Dickinson

Shearman & Sterling LLP  
("**Counsel**"): Kenneth Laverriere<sup>1</sup>, Veronica Wissel<sup>1</sup>

Nationwide Retirement  
Solutions ("**NRS**"): Patrick Ray, Tom Weber<sup>1</sup>, Ric Whetro<sup>1</sup>

Evaluation Associates LLC  
("**EAI**"): Linda Schlissel<sup>1</sup>, Kathy Bajorinas<sup>1</sup>

The Bank of New York Mellon  
("**BNYM**"): Gregory Wilcox<sup>1</sup>

There were no members of the public in attendance.

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<sup>1</sup> Ms. Ritter, Mr. Laverriere, Ms. Wissel, Mr. Weber, Mr. Whetro, Ms. Schlissel, Ms. Bajorinas, and Mr. Wilcox attended via conference call.

Edward Cupoli served as Chair and David Fischer acted as Secretary of the meeting. Mr. Cupoli called the meeting to order and Edward Lilly presented a brief overview of the agenda.

## **I. Investment Management Change at Invesco U.S. Small Cap Value Fund**

Linda Schlissel began the discussion by referring to the EAI “Manager Keynotes”, which had been previously distributed to Board Members. The “Manager Keynotes” discussed the sale of the Morgan Stanley (MSIFT) U.S. Small Cap Value Fund to Van Kampen and subsequently to Invesco and the resulting change of investment managers from the current team to a new team comprised of Invesco personnel. Ms. Schlissel noted that the Keynotes were based on a discussion that EAI had with Invesco’s portfolio management team on July 13, 2010. EAI analysis revealed that there was very little overlap in securities between those purchased by the current investment management team and the securities held in other Invesco small cap funds. Ms. Schlissel indicated that it is anticipated, therefore, that the vast majority of holdings in the current Invesco fund will be sold to match the securities in other Invesco holdings. Based on this, Ms. Schlissel recommended that the Invesco U.S. Small Cap Value Fund be terminated from the New York State Deferred Compensation Plan (the “*Plan*”) as of August 2, 2010 and the assets in the fund be transferred to the Vanguard Small Cap Index Fund.

Mr. Cupoli asked how much notice is generally provided when there is an investment manager change. Ms. Schlissel responded that this is the only instance where the resignation of an entire management team has occurred in a fund during the history of the Plan. Joseph Pennisi requested clarification about the implications of a termination. Ms. Schlissel responded that a termination requires a full redemption of the Plan’s assets in the particular fund. She expressed concern that if the Plan did not initiate the move, inertia on behalf of Plan participants would result in very minor trading activity. Mr. Cupoli asked for the basis of moving the money to the index fund. Ms. Schlissel responded that the index fund is the closest fund in the Plan lineup to the investment strategy of the fund being closed. She indicated that another option would be to move the funds to the Stable Income Fund but did not recommend this action. Mr. Pennisi asked if this would be the first time that the Plan had to terminate an investment option. Ms. Schlissel noted that there was a termination of a fund in the mid-1990s but since that time all terminations have occurred at the expiration date of the contracts following a Request for Proposals process. Mr. Pennisi inquired if there had been significant Plan participant objections at the time of the terminations. Mr. Lilly responded that objections to the Board’s office were minimal.

At this time, Kenneth Laverriere brought three contractual issues to the Board’s attention: (1) the Invesco prospectus allows for a 2% redemption fee for shares held less than 30 days, (2) the Invesco prospectus allows for in-kind rather than cash distributions, and (3) the Board’s contract requires a ten-day notice prior to termination. Mr. Laverriere noted that he did not think that any of these issues would be a problem. Mr. Laverriere further stated that Counsel supports the recommendation to terminate the Invesco fund.

Mr. Pennisi requested an explanation of an in-kind distribution. Mr. Laverriere responded that rather than cash, the manager has the authority to distribute a proportionate share of each stock in the portfolio to the Plan.

Craig Dickinson asked if other investors in the fund were requesting liquidations and, if so, would this create a problem to the Plan. Ms. Schlissel responded that she was unaware of significant or other liquidations being requested and did not expect it to be a problem.

Mr. Cupoli made a motion to terminate the Plan's relationship with the Invesco U.S. Small Cap Value Fund effective August 2, 2010 upon conditions acceptable to Board Staff and that the assets are to be transferred to the Vanguard Small Cap Index Fund. Mr. Pennisi seconded the motion and the motion was approved.

## **II. Model Plan Audit Recommendations**

Mr. Lilly advised that a meeting was held with members of the New York State Society of Certified Public Accountants to discuss the audit requirements of Model Plans contained in the Board's Rules and effective ways to define those requirements and establish audit procedures. CPA representatives plan to propose an interim report at the Board's September 2, 2010 meeting and present a final report at the November meeting.

## **III. Adjournment**

There being no further matters for discussion, Mr. Cupoli moved to conclude the public meeting. Mr. Pennisi seconded the motion, and the Board approved the motion. The Board meeting was then adjourned.

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David Fischer  
Secretary of the Meeting