NYS DEFERRED COMPENSATION BOARD

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September 14, 2012

Memorandum To: Files

Minutes of the September 14, 2012
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 14, 2012, 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 3:15 p.m. A separate memorandum to the files, also dated September 14, 2012, lists the materials prepared for and referred to during the meeting.

Board Members:	Edward M. Cupoli, Robert F. Mujica
Staff Members ("***Staff***"):	Edward Lilly, David Fischer, Peter Drao
Shearman & Sterling LLP ("***S&S***")	Kenneth Laverriere, Veronica Wissel, Jennifer Stadler, Sara Nosaka
The Bank of New York Mellon ("***BNYM***"):	David Blakeley
Dwight Asset Management Company LLC ("***Dwight***"):	David Starr, Marie Mastro, John Bisset
Callan Associates Inc. ("***Callan***"):	Mark Kline, Karen McKechnie
Nationwide Retirement Solutions ("***NRS***"):	Keri Metres, Brenda Anderson, Kelly Nguyen, Daniel Wisell, Patrick Ray, Ric Whetro, Karen Choto, Bertrand Thomas
BlackRock Financial Management, Inc. ("***BlackRock***"):	Paul Francis, Matt Rauseo
CliftonLarsonAllen LLP: ("***CliftonLarsonAllen***")	Thomas Rey
Morgan Stanley Investment Management: ("***Morgan Stanley***")	Paul Psaila, Amy Oldenburg

Edward Cupoli acted as Chairperson and Sara Nosaka acted as Secretary of the meeting. Mr. Cupoli called the meeting to order at 9:15 a.m.

I. APPROVAL OF MINUTES

The Board reviewed the minutes of the public meeting held on May 24, 2012. Robert Mujica moved to approve the minutes. Mr. Cupoli seconded the motion, and the Board members present unanimously approved the minutes.

II. GENERAL PLAN ISSUES

A. Update on International Transition

Edward Lilly introduced Paul Francis and Matt Rauseo from BlackRock, the Plan's transition manager. Mr. Francis gave an overview of the portfolio's transition from the legacy international investment managers (the "***Legacy Managers***") to the newly selected international investment managers. Mr. Francis described the respective responsibilities of BlackRock and BNYM to transition the assets to the new portfolio managers. Mr. Francis explained that the majority of activity with respect to the transition occurred in late May, and that the new international investment managers had assumed control over the investment of the assets of their respective accounts on June 11, 2012. Mr. Lilly noted that the Legacy Managers' accounts are now closed.

Mr. Francis then discussed the transaction costs of the transition. He noted that the actual cost of the transition was within the estimated range. BlackRock had estimated that the transition would cost approximately 30 basis points +/- a "risk band" of 29 basis points. The actual cost fell within the estimated range at 46 basis points (29 basis points plus 17 basis points in opportunity cost). The Plan paid a total of $216,000 in transition costs, including the commissions paid by BlackRock to brokers to execute the trades. Discussion ensued regarding the transition and the associated costs and the content of Mr. Francis' presentation.

B. October Fee Determination

The Board then considered the amount of the October asset-based fee. Mr. Lilly reported that both revenues and expenses have increased. As a result of growth in the size of the Plan's assets, Mr. Lilly reported that the currently anticipated asset-based charge would increase Plan revenues by more than $119,000 over budget estimates. It was estimated that total Plan revenues could exceed projections by $183,480 if a 2.25 basis point asset-based fee were to be levied.. Mr. Lilly also noted that an increase in the number of Plan participants would increase Plan expenses as a result of an increase in amounts payable to NRS by $53,295. The estimated increase in total administrative fees will lead to an estimated net increase of revenues over expenses of approximately $130,000 or 1.3% of the entire budget. Mr. Lilly presented Staff's recommendation that the Plan maintain the 2.25 basis point asset-based fee, with the excess revenues to be credited against expenses in the 2013-2014 fiscal year. Discussion ensued regarding Staff's recommendation, and the existing participant fee structure. Mr. Cupoli then moved to approve Staff's recommendation to maintain the asset-based portion of the 2012-2013 fiscal year at 2.25 basis points for the October fee, Mr. Mujica seconded the motion, and the Board members present unanimously approved Staff's recommendation.

C. Janus/Perkins N Class

Mr. Lilly next discussed the new N class share for the Janus Fund and the Perkins Mid Cap Value Fund that are available to Plan participants. The N class share for the Janus Fund would provide the same net fee of 65 basis points, but whereas the current Janus investment option provides a 90 basis point fee, reduced quarterly with a 25 basis point administrative reimbursement, the new N class share would provide the 65 basis point fee without the need for an administrative reimbursement. The current investment management fee of the Janus Perkins Mid Cap Value Fund is 75 basis points, net (100 basis points less an administrative reimbursement of 25 basis points) and the investment management fee of the N class would be 63 basis points, or 12 basis points less. The Board discussed Staff's recommendation that the Board approve the adoption of the N Class shares for these two funds. Mr. Cupoli moved to approve Staff's recommendation, and upon the motion being duly seconded, it was unanimously approved by the Board members present.

D. Iran Divestiture Policy

Mr. Lilly gave an overview of the New York State "Iran Divestment Act of 2012" (the "***Act***"). Mr. Lilly explained that, although it was Staff's and S&S's view that the Act was aimed at procurements by State agencies and, therefore, the Act did not apply to investment activity by the Plan, it was Staff's recommendation that the Board adopt an Iran Investment Policy that would restrict investments by the Plan's separate account managers. Mr. Lilly explained that, under the proposed Policy, separate account managers would be prohibited from investing in the entities that the Office of General Services ("***OGS***") periodically determines are engaging in activities in Iran (principally activities in the Iranian energy and nuclear sectors) prohibited by the Act. The new Policy would require separate account managers not to invest in any of the companies on the OGS list and to divest any holdings in companies added to the list within 90 days of notice that the companies are on or have been added to the list. Mark Kline from Callan indicated that Callan believed that the Policy would not likely have any detrimental impact on the Plan, as it would not require any immediate divestments and would not materially limit the investment activity of the separate account managers. Mr. Kline also noted that most states and municipalities that are implementing similar policies are doing so because they are required to.

Extended discussion followed regarding the proposed Policy and its potential impact on the Plan. As part of the discussion, Mr. Lilly summarized the process, as contained in the Act, that OGS would follow in developing the list of prohibited companies. Mr. Lilly noted that there are currently 43 companies on the OGS list that have been determined to be engaging in investment activities in the Iranian energy and nuclear sectors. Mr. Mujica questioned whether the proposed Policy to require divestment of those investments on the OGS list would allow some discretion on the part of Staff. Mr. Laverriere indicated that the new Policy, if adopted, would operate automatically and, given the limited resources available to the Board to make individual company assessments, it was not recommended that the proposed Policy include a process permitting exceptions. Mr. Lilly also noted that the provisions of the Act for designating companies were narrow. Mr. Mujica requested that, if the Policy was adopted, Staff prepare a report for the Board on about the first anniversary of adoption describing the impact that the Policy had on Plan investments and the activities of the Plan's separate account managers. Upon further discussion, the Board determined to adopt the Policy and review a report from Staff after one year to evaluate the impact of the Policy on Plan investments and the investment activities of the Plan's separate account managers. Mr. Mujica moved to adopt the proposed Policy for one year, then to revisit the issue at that time after receipt of the aforementioned Staff report. Mr. Cupoli seconded the motion, and the motion was unanimously adopted by the Board members present.

E. RFP Transition Manager

Mr. Lilly gave an overview of Board contracts whose expiration dates are approaching. Mr.Lilly noted that the Board's contract with BlackRock for transition management services will expire on March 31, 2013, and the Board's contract with BlackRock for cash management services within the Stable Income Fund will expire on June 30, 2013. Mr. Lilly presented Staff's recommendation that Callan issue a Request for Proposals (an "***RFP***") for each of these contracts. The analysis of responses to the cash manager RFP and recommendations would be conducted by Dwight. After discussion, a motion was made to approve Staff's recommended action, the motion was seconded and the Board members present unanimously approved the issuance of an RFP for a transition manager and a cash manager.

F. Auditor Report

Thomas Rey from CliftonLarsonAllen gave a summary of the Plan's audited financial statements, noting that CliftonLarsonAllen was issuing, as in prior years, an unqualified opinion with respect to the Plan's financial statements. Mr. Rey reviewed some of the key metrics and facts from the financial statements. Mr. Rey then summarized the agreed upon procedures report and the performance criteria report. Mr. Rey provided an overview of the various performance criteria and the penalties for noncompliance with the performance criteria. Discussion ensued regarding the exceptions in the performance criteria, and the reasons for those exceptions. Mr. Lilly noted that NRS would be preparing a report on the findings in the reports and will make a recommendation to the Board regarding penalties at the Board meeting in November.

G. Selection of General Counsel

At 11:00 a.m., the Board went into executive session with Staff only to discuss the selection of general counsel to the Plan. The Board returned from executive session at approximately 11:30 a.m. and the meeting went back into public session.

Mr. Lilly announced the resolution before the Board regarding its selection of its general counsel. Mr. Lilly stated that Staff recommended that S&S be re-appointed for a 5-year term. Mr. Lilly noted that Diana Jones Ritter, who was absent from the Board meeting due to illness, had written to express her full support in reappointing S&S. Mr. Mujica moved to approve the reappointment of S&S. Mr. Cupoli seconded the motion, and the Board members present unanimously approved the reappointment. Mr. Laverriere expressed on behalf of the entire S&S team his thanks to the Board for the reappointment of S&S.

III. ADMINISTRATIVE SERVICE AGENCY PRESENTATION

A. DC Direct Update

Mr. Lilly asked NRS to provide an update of the Plan's administrative activities during the last quarter. Brenda Anderson gave a brief overview on the recent organizational changes at NRS, including the appointment of Larry Hilsheimer as the new President and CEO at NRS. New Account Executives to the New York State team, Bertrand Thomas and Karen Choto, introduced themselves to the Board.

Keri Metres gave an overview of the transition of the Plan's participant information to the new NRS platform, DC Direct, and the optional features that may be made available to participants. Ms. Metres described the new procedure for new account numbers to be assigned to participants at their option. The new account numbers would be used instead of participants' social security numbers for access to the Plan website. Ms. Metres also described two additional optional features: the auto rebalancing feature and the feature allowing participants to make changes to beneficiaries online. Discussion ensued regarding auto rebalancing and online beneficiary changes. Mr. Lilly explained the concerns of Staff in adopting the auto rebalancing feature because of the automated nature of the feature and the fact that it does not take into account the particular circumstances of a participant and the potential for an unintended investment result. Mr. Lilly noted that participants may currently rebalance their portfolios through the "End Result" feature on the website or through the HELPLINE. A general discussion then followed regarding the differences between asset allocation and auto rebalancing and the prevalence of an auto-rebalancing feature in the defined contribution market place. After discussion, the Board determined not to adopt an auto rebalancing feature at this time.

Next, Ms. Metres explained the new system feature allowing participants to make changes to their beneficiaries online. Mr. Lilly explained Staff's recommendation not to adopt the feature, noting that the feature would not require a signature that could be verified in hard copy, and Staff's concern about the risk of fraud. Discussion ensued regarding the costs and benefits of permitting online beneficiary changes. Mr. Cupoli noted that HELPLINE staff should be well versed in the process required to change beneficiary information so as to be able to inform any participant if and when the need arises. On a related topic, Mr. Cupoli asked whether NRS had a mechanism to detect fraud related to beneficiaries and whether there was a system to detect whether a person is named as a beneficiary by more than one participant. Mr. Cupoli asked if NRS could provide a report at the next meeting with the results of a cross-check of beneficiaries. Ms. Metres indicated that she would examine the systems currently in place and report back to the Board at the next meeting. Following the discussion, the Board determined not to adopt the online beneficiary designation option.

Ms. Metres concluded by providing an overview of the progress of the DC Direct update, noting that the conversion to DC Direct would take place the weekend of October 19.

B. Other Administrative Highlights

Patrick Ray provided an update on other Plan developments. Regarding the Janus Fund, which the Board had voted to close to new investments at the Board meeting on May 24, 2012, Mr. Ray informed the Board that as of August 13, 2012, the Janus Fund was closed to new investments and the participants with investments in the Janus Fund had been informed. Mr. Ray also provided an update on new Plan adoptions and other Plan statistics.

Kelly Nguyen then discussed the Plan's new marketing initiative "Tell a Friend." Ms. Nguyen summarized the main events on the timeline for launching "Tell a Friend." Ms. Nguyen indicated that the initiative first launched in July 2012, then in August 2012 "Tell a Friend" was communicated via email to participants. Ms. Nguyen noted that she hopes to continue to advertise the initiative and to send emails to participating employers regarding the initiative in September 2012.

IV. STABLE INCOME FUND

David Starr, Marie Mastro and John Bisset of Dwight gave an overview of the performance of the Stable Income Fund. Mr. Starr discussed some of Dwight's current initiatives on behalf of the Stable Income Fund, which include eliminating the Bank of America and JPMorgan wrap contracts and reducing the wrap contract exposure to State Street. Ms. Mastro next gave an overview of the status of the restructuring of the Stable Income Fund and the separate account insurance contracts. Ms. Mastro noted that negotiations of the new contracts with ING and Mass Mutual are underway, though due to the Plan's unique requirements, the process has taken more time than was anticipated. Mr. Lilly advised that the current investment management agreements with Goldman Sachs Asset Management (short portfolio), WAMCO (intermediate portfolio) and NISA (core portfolio) are scheduled to expire at the end of September. Mr. Lilly noted that, due to the delay in implementing the transition to the separate account insurance contracts, it was Staff's recommendation that the Board approve a one-year extension of the investment management agreements with the existing managers in order to provide more time for the negotiation and finalization of the separate account agreements that will provide for the replacement of these managers. Mr. Lilly stated that each of the managers had been contacted about the extensions and understood that the duration of the extensions would only be until the separate account arrangements have been finalized and, therefore, would likely be for a period of less than one year. The Board noted that it would be in the best interests of the Plan and Plan participants to extend the Goldman Sachs Asset Management (short portfolio), WAMCO (intermediate portfolio) and NISA (core portfolio) contracts for one year as permitted by the Board's Rules because:

- The contracts with these managers will be the funding source for ING and MassMutual, the new managers selected by the Board at its May 24th meeting;

- The contracts with ING (intermediate duration) and MassMutual (core duration) have not yet been finalized;
- Those new contracts will require approval by insurance company regulators in New York State and, potentially, in the states of the company's home office; and
- It is essential that there be an uninterrupted management of assets by the existing managers during the period of contract negotiation and regulatory approvals.

Mr. Mujica moved to extend the current contracts to allow for an orderly transition to the new separate account insurance providers. Mr. Cupoli seconded the motion, and the Board members present unanimously approved the extension of the contracts.

Mr. Bisset then provided an overview of the performance of the Stable Income Fund, reporting that the Stable Income Fund continues to provide a spot yield of 2.20%, higher than the 5 year U.S. Treasury spot yield. Mr. Bisset noted that managers have reacted positively to the recent activity of the federal government and the European Central Bank and are outperforming their benchmarks. Mr. Starr also gave an update of Dwight's transition in connection with the Goldman Sachs transaction.

V. INVESTMENT CONSULTANT PRESENTATION

Mr. Kline and Ms. McKechnie from Callan provided an overview of the Plan's investment performance and the investment performance of the Plan's investment options. A general discussion then followed regarding the content of Callan's presentation. Mr. Kline concluded by reminding the Board that Callan would be presenting detailed recommendations about manager selection and the Plan's investment structure at the next Board meeting.

VI. PORTFOLIO MANAGER REVIEW

Mr. Lilly introduced Paul Psaila and Amy Oldenburg, who gave a portfolio review of the Morgan Stanley Emerging Markets portfolio and explained Morgan Stanley's investment strategy in that market. Discussion ensued regarding the presentation.

The Morgan Stanley presentation concluded at 3:00 p.m. and the meeting was adjourned at 3:15 p.m.

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Sara Nosaka
Secretary of the Meeting