



NYS DEFERRED COMPENSATION BOARD

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DIANA JONES RITTER

EDWARD M. CUPOLI

JOSEPH F. PENNISI

November 19, 2010

Memorandum To: Files

Minutes of the November 19, 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 November 19, 2010, 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 approximately 2:45 p.m. A separate memorandum to the files, also dated November 19, 2010, 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 "):	Mary Dunleavy, Katherine Dinella
Nationwide Retirement Solutions (" NRS "):	Ric Whetro, Patrick Ray, Jill O'Callaghan, Tom Weber, Brenda Anderson
Evaluation Associates LLC (" EAI "):	Linda Schlissel, Kathy Bajorinas
Dwight Asset Management (" Dwight "):	Marie Mastro
Clifton Gunderson:	Thomas Heseltine
New York State Society of CPAs (" NYSSCPA "):	Scott Adair, Dennis O'Leary, George Foundotos
Wells Fargo:	Erik Astheimer, Michael Schneich, Bobby Chen

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.

I. APPROVAL OF MINUTES

The Board reviewed the minutes of the public meeting held on September 2, 2010. Ms. Ritter moved to approve the minutes, Joseph Pennisi seconded the motion, and the Board unanimously approved the minutes.

II. GENERAL ISSUES

A. State and Model Plan Documents

Edward Lilly gave the Board an overview of revisions to the Plan document amendment and restatement to incorporate a Roth contribution feature and in-Plan Roth rollovers. Discussion ensued regarding the timing of the amendment and the submission of the amended and restated Plan document to the Internal Revenue Service (the “*IRS*”) for a Private Letter Ruling, particularly in light of possible future guidance from the IRS related to the Roth provisions. After this discussion, the Board determined that it would be appropriate to submit the entire amendment and restatement now, including the Roth provisions, and make any necessary amendments as required by the IRS at a later time. After discussing the proposed amended and restated State Plan document, Mr. Pennisi moved to approve the amended and restated State Plan document in substantially the form as presented by Staff. Edward Cupoli seconded the motion and the Board unanimously approved the State Plan amendment and restatement.

Discussion then ensued regarding the revisions made to the model plan document amendment and restatement to incorporate Roth provisions and comments received from Suffolk County. Ms. Ritter recused herself from the model plan discussion. After discussing the proposed amended and restated model plan document, Mr. Pennisi moved to approve the amended and restated model plan document in substantially the form as presented by Staff. Mr. Cupoli seconded the motion and the Board approved the model plan amendment and restatement. Ms. Ritter recused herself from the vote.

B. Audit Issues

Mr. Lilly provided the Board with an overview of the work done by a Task Force appointed by the New York State Society of Certified Public Accountants (the “*NYSSCPA*”), Staff and Legal Counsel with respect to the audit requirement under the Board’s Rules and Regulations. Ms. Ritter recused herself from the discussion. Mr. Lilly presented Scott Adair, Dennis O’Leary, and George Foundotos, who were members of the Task Force, who were present at the meeting to provide advice to the Board. Mr. Lilly presented the recommendation to amend the Board’s Rules and Regulations (the “*Rules*”) to implement a two-tiered audit rule that would require local plan sponsors with fewer than 100 participants as of the last day of the most recently completed plan year to utilize an annual agreed upon procedures process in accordance with attestation standards established by the American Institute of Certified Public Accountants. Local plan sponsors with 100 or more participants as of the last day of the most recently completed plan year would be required to perform an audit of financial statements on an annual basis. Discussion ensued regarding the cost differential between agreed upon procedures and an audit of financial statements, and the benefits of each process. Mr. Pennisi noted that some plan sponsors may fluctuate with respect to their number of participants, and thus may fall in different categories in different years. Mr. Lilly noted that the recommendation would give local plan sponsors a one-year transition period after reaching or exceeding the 100-participant threshold before they would become subject to the full financial statement audit requirement.

After a continued discussion, Mr. Cupoli moved to approve the recommendations, Mr. Pennisi seconded the motion, and the recommendations were approved. Ms. Ritter recused herself from the vote. The Board then directed Staff and Legal Counsel to draft an amendment to the Board's Rules and Regulations for the Board's review.

III. EXECUTIVE SESSION

Mr. Pennisi moved to take the Board into Executive Session for a discussion of contractual issues related to the Stable Income Fund (the "**Fund**"). Mr. 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, and the Board returned to public session.

IV. PLAN ISSUES

A. 2011 Plan Issues

Mr. Lilly gave the Board an overview of upcoming 2011 Plan issues, including the upcoming expiration of contracts with managers in the international equity portfolio, the Stable Value Structure Manager, and two of the Fund's core duration investment managers. Linda Schlissel from Evaluation Associates LLC ("**EAI**") noted that EAI will be sending out an RFP for the stable value structure manager in January, and will be presenting an analysis of the international equity portfolio at the upcoming February meeting.

B. 2011-2012 Budget Proposal

Mr. Lilly presented Staff's proposed budget for the 2011-12 Fiscal Year. Mr. Lilly noted that the anticipated overall Plan expenditures for 2011-12 are \$9.7 million, an increase of 1.6 percent over Fiscal Year 2010-11. Mr. Lilly noted that this increase is generally due to the growth of the Plan and a budgetary underestimate of trust and custody fees for FY 2010-11. Mr. Lilly also noted that due to the increase in the value of Plan assets, the asset-based fee may be reduced to an annual rate of 5.0 basis points from the Fiscal Year 2010-11 rate of 5.6 basis points. Discussion ensued regarding the budget presentation and the use of any carry over amounts to reduce the asset-based fee while still retaining an appropriate cash balance cushion.

C. Small Cap Value Selection and Update

Ms. Schlissel then gave an overview of the responses the Board received from its Small Cap Value RFP issued in October 2010. Ms. Schlissel reported that the Board has received 12 proposals, several of which did not meet the Board's basic requirements, due to their not being categorized as "Small Cap Value" funds by Morningstar or having low Morningstar ratings. Discussion ensued regarding the process and timeline for evaluating the RFP responses and selecting a fund.

D. Performance Audit

Thomas Heseltine of Clifton Gunderson gave an overview of Clifton Gunderson's findings under the Performance Criteria report of Nationwide Retirement Solutions ("**NRS**"). Mr. Fischer presented the Board with an overview of NRS's response to the report and Staff's recommendations with respect to the penalties that should be imposed as a result of the audit findings. Staff recommended that the Board impose penalties totaling \$100,000. Mr. Cupoli moved to approve Staff's recommendation, Mr. Pennisi seconded the motion, and the motion was unanimously adopted.

E. Securities Lending Investment Guidelines

Mary Dunleavy of The Bank of New York Mellon (“*BNYM*”) then gave an overview of BNYM’s proposal to invest the Plan’s securities lending collateral in a newer and shorter duration investment pool. Discussion ensued regarding the potential impact of this shift, and the Board determined that the new strategy would result in more conservative investments. Ms. Dunleavy noted that the Plan has only one security on loan, with a value of approximately \$1 million, due to the Board’s directive to wind down the securities lending program. After further discussion, Mr. Pennisi moved to approve the new investment strategy for securities lending collateral, Mr. Cupoli seconded the motion, and the motion passed.

F. Vanguard Total Bond Fund

Mr. Lilly notified the Board that the Plan’s asset level in the Vanguard Total Bond Fund now qualifies the Plan to offer the Institutional Plus share class, which has an expense ratio of five basis points. Mr. Lilly noted that this would represent a reduction of two basis points from the currently-offered Institutional share class. Discussion ensued regarding Staff’s proposal to map assets currently invested in Vanguard Total Bond Fund into the new share class. The Board discussed the benefits of the proposal to Plan participants and noted the importance of ensuring that Financial Organizations provide prompt notice of the Plan’s eligibility to offer less expensive share classes. Ric Whetro stated that NRS could conduct the conversion on December 27. Mr. Cupoli then moved to approve the change in share classes, Mr. Pennisi seconded the motion, and the motion was adopted.

Ms. Ritter left the meeting at this time.

V. NRS PRESENTATION

Members of NRS then gave an overview of NRS’s activities during the last quarter. Brenda Anderson began the presentation by informing the Board about certain staff changes at NRS. Patrick Ray then gave an overview regarding NRS’s outreach efforts to new participants and local jurisdictions. Mr. Ray also discussed the account executive and HELPLINE activity over the last quarter and the significant increases in participant contacts and communications. Mr. Whetro then presented an overview of the quarterly budget, fees, and deferral activity. Mr. Whetro noted that participants in the Plan have been deferring more money, due in large part to Mr. Ray’s team educating and encouraging people to defer more. Mr. Whetro also gave an overview of NRS’s efforts to prepare to administer the new Roth program under the Plan. Jill O’Callaghan then gave an overview of HELPLINE activities. Ms. O’Callaghan noted that there were more calls regarding Plan loans than on any other topic. Mr. Ray presented the Board with NRS’s proposed plan to provide a paperless statement option for participants. Discussion ensued regarding the transition to paperless statements, and Ms. Ritter noted that she was supportive of efforts to reduce waste by making more use of electronic communications. A final decision to adopt paperless statement administrative procedures will be made at a later Board meeting pending clarification of some issues.

VI. DWIGHT PRESENTATION

Marie Mastro of Dwight Asset Management Company LLC (“*Dwight*”) presented the Board with an overview of the Fund’s performance, diversification, and cash flow over the last quarter, and the individual performance of the investment managers in the Fund. Ms. Mastro also summarized the upcoming contract maturity schedule of the investment managers under the Fund as of September 30, 2010. Ms. Mastro noted that wrap capacity continues to be limited, and certain wrap providers have indicated their intent to tighten the terms of outstanding wrap agreements. Ms. Mastro noted that the Fund currently has access to some additional wrap capacity with Prudential and New York Life, and Dwight is exploring new providers. Following Ms. Mastro’s presentation, Mr. Ray noted for the Board that Ms. Mastro participated in an Account Executive call with NRS to answer questions about the Fund, and he thanked her for her help.

VII. EAI PRESENTATION

Ms. Schlissel first presented the Board with a summary of the Plan's current asset allocation and the general performance of the current investment options. Kathy Bajorinas then presented the third quarter performance scorecard for each domestic investment option. Next, Ms. Schlissel reviewed the performance of the international equity portfolio. Discussion ensued regarding the overall performance of the Plan's investment options. Ms. Schlissel noted at the current time, she did not recommend any changes to the current investment option menu, and EAI will continue to monitor the Plan's investment performance.

VIII. WELLS FARGO PRESENTATION

Erik Astheimer, Michael Schneich and Bobby Chen from Wells Fargo gave a presentation regarding the Wells Fargo Small Cap Growth Fund, in which more than 15,600 participants currently have more than \$77.1 million invested. Mr. Chen gave an overview of the fund's investment team and strategy. Mr. Chen then described some of the underlying investments that the fund holds and the fund's rationale for its investment choices. Discussion ensued regarding the Wells Fargo presentation.

IX. 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 then adjourned at approximately 2:45 p.m.