



NYS DEFERRED COMPENSATION BOARD

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DIANA JONES RITTER

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November 18, 2011

Memorandum To: Files

Minutes of the November 18, 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 November 18, 2011, 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 2:30 p.m. A separate memorandum to the files, also dated November 18, 2011, lists the materials prepared for and referred to during the meeting.

In attendance:

Board Members:	Edward M. Cupoli, Diana Jones Ritter
Staff Members (“ <i>Staff</i> ”):	Edward Lilly, David Fischer, Sharon DiMura
Shearman & Sterling LLP (“ <i>Counsel</i> ”):	Kenneth Laverriere, Veronica Wissel, Tiffany Sepulveda, Adrienne Hart (Legal Assistant)
The Bank of New York Mellon Corporation (“ <i>BNYM</i> ”):	Bill Claxton
Nationwide Retirement Solutions (“ <i>NRS</i> ”):	Ric Whetro, Patrick Ray, Jill O’Callaghan, Brenda Anderson, Nancy Tran, Joe Laiz
Dwight Asset Management Company LLC (“ <i>Dwight</i> ”):	Marie Mastro, David Westbrook, David Starr
Clifton Gunderson LLP (“ <i>Clifton Gunderson</i> ”):	Tom Heseltine
Callan Associates Inc. (“ <i>Callan</i> ”):	Mark Kline, Karen McKechnie, Steven Center ¹

¹ Steven Center participated via telephone.

Diana Ritter acted as Chairperson and Adrienne Hart acted as Secretary of the meeting. Ms. Ritter called the meeting to order. Edward Lilly then turned the attendees' attention to Patrick Ray of Nationwide Retirement Solutions ("**NRS**"), who introduced Account Executives Joe Laiz and Nancy Tran. Mr. Lilly then presented a brief overview of the agenda.

I. APPROVAL OF MINUTES

The Board reviewed the minutes of the public meeting held on August 26, 2011. Ms. Ritter moved to approve the minutes. Edward Cupoli seconded the motion, and the Board unanimously approved the minutes. Ms. Ritter moved to enter into Executive Session to discuss issues relating to the selection of the international portfolio managers and analysis of the performance criteria review. Mr. Cupoli seconded the motion and the motion was unanimously approved.

II. EXECUTIVE SESSION

The Board then conducted its business in Executive Session, whereupon Ms. Ritter moved to close the Executive Session. Mr. Cupoli seconded the motion and the motion was unanimously approved.

III. INTERNATIONAL PORTFOLIO MANAGER SELECTION

Upon re-entering Public Session, Mark Kline and Karen McKechnie of Callan Associates Inc. ("**Callan**") gave an overview of the Request for Proposals ("**RFP**") and the interview and selection process for the international equity active and passive portfolio ("**International Fund**") managers. Mr. Kline noted that Callan received 63 responses to the RFP issued on July 27, 2011, and after internally reviewing with Callan's manager search committee, Callan recommended 18 managers for consideration by the Plan. Mr. Kline further described the process by which Staff Members ("**Staff**") reviewed Callan's recommendations and, in consultation with Callan, determined to interview a total of 14 managers on November 1, 2 and 3, 2011. Mr. Kline then described Callan's final recommendation with respect to the structure of the International Fund and the International Fund managers resulting from the interviews and ongoing discussions with Staff. Callan then recommended that the Board select four active managers (including two lead managers and two satellite managers) and one passive manager to manage the International Fund, as follows: MFS Investment Management and Wellington Management Company, LLP, as the lead managers; Manning & Napier Advisors, Inc. and Tradewinds Global Investors, LLC, as the satellite managers; and Northern Trust Global Investments, as the passive manager. Mr. Kline next discussed the rationale for the recommendations and the key characteristics of the recommended managers, both individually and as a group, as compared to the current managers. Mr. Kline focused on Callan's assessment of how each manager's different investment strategies and philosophies would complement each other.

Mr. Kline then reviewed certain business relationships that Callan has with the RFP respondents and the search finalists. Mr. Kline confirmed that these business relationships did not influence Callan's recommendations. Mr. Lilly affirmed that Callan had previously discussed and disclosed these business relationships with Staff as part of the RFP process. The Board then asked for an overview of efforts that were made to solicit RFP responses from minority and women owned business enterprises. Mr. Lilly and Mr. Kline noted that Callan has a database of managers that are minority and women owned business enterprises, and that Callan had reached out to qualified managers from the database to encourage them to participate in the RFP process.

After further discussion of Callan's recommendations and the RFP process, Ms. Ritter moved to adopt a Board resolution approving the selection of the managers recommended by Callan to manage the International Fund, subject to the negotiation and finalization of contract terms, and authorizing Staff and Shearman & Sterling LLP ("**Counsel**") to take all actions necessary to negotiate and finalize an investment management agreement with a term of up to ten years with each of the selected firms. Mr. Cupoli seconded the motion and the motion was unanimously approved.

Mr. Kline then discussed Callan's recommended changes to the International Equity Fund Active Portfolio Investment Policy and Procedures (the "***International Fund Investment Policy***") that would recognize the newly selected managers of the active portfolio of the International Fund and the recommended allocation of assets among those managers. Mr. Cupoli moved to adopt Callan's recommended changes to the International Fund Investment Policy, effective as of June 12, 2012. Ms. Ritter seconded the motion and the motion was unanimously approved.

IV. STABLE INCOME FUND ISSUES

A. Revisions to Fund Investment Guidelines

Steven Center of Callan joined the meeting at this time via telephone.

David Westbrook of Dwight Asset Management Company LLC ("***Dwight***") gave an overview of Dwight's proposed revisions to the Stable Income Fund (the "***Fund***") Investment Policies and Guidelines, which revisions are intended to create greater flexibility in the management of issuers and assets within the Fund. Mr. Westbrook provided a detailed description of the proposed revisions, including (i) merging the short-term, intermediate and core portfolio guidelines into one integrated policy with overall duration and investment descriptions, (ii) delineating separate accounts from GICs and GIC alternatives, (iii) permitting greater ranges for cash/cash equivalents, separate accounts and wrapped fixed income portfolios, (iv) permitting a shorter Fund duration and (v) clarifying and adding certain concentration guidelines. A discussion of the proposed revisions to the policies and guidelines ensued. Ms. Ritter made a motion to adopt the amended policies and guidelines, subject to final review by Counsel, Staff and Callan. Mr. Cupoli seconded the motion and the motion was unanimously approved.

B. WAMCO Contract

David Starr of Dwight presented a schedule reflecting the expiration dates of manager contracts and noted that the WAMCO contract will expire on March 31, 2012. Mr. Starr recommended that the Board extend the WAMCO contract for one year in light of the manager's satisfactory performance and the potential disruption to the Fund's wrap capacity that might be caused by replacing WAMCO. Mr. Cupoli moved for an extension of the WAMCO contract for one year, based on Dwight's recommendation. Ms. Ritter seconded the motion and the motion was unanimously approved.

Mr. Starr provided the Board with an overview of a recommendation that Dwight develop and distribute an RFP in January for the purpose of identifying one or more insurance companies that would each provide a separate account that would include a benefit responsive wrap contract and investment management for up to \$1 billion of the Fund's assets. Mr. Lilly explained that Dwight will present its final recommendation on this matter at the Board's May 2012 Board meeting, at which time, the Board would be asked to discuss and decide whether to select one or more of the respondents for these services. The Board directed that the RFP be developed and released.

C. Global Wrap Reallocation

In response to a request made at the August 2011 public meeting of the Board that Dwight provide the Board with a detailed analysis of the reallocation of portfolio assets, Marie Mastro of Dwight discussed the reallocation of Fund assets in the global wrap among the core, intermediate and short-term portfolios in order to address requests made by wrap providers. Ms. Mastro discussed the impact of the shift on the Fund's market value, yield and on the duration of each portfolio, and the impact of the shift on the crediting rate of each portfolio. Ms. Mastro concluded that the shift has not had a negative impact on Fund participants. A discussion of the shift in allocation ensued. Mr. Westbrook then gave a presentation on sub-manager returns for the last quarter.

Dwight and Mr. Center left the meeting at this time.

V. PERFORMANCE AUDIT AND PERFORMANCE CRITERIA REPORT

Tom Heseltine of Clifton Gunderson LLP (“*Clifton Gunderson*”) began his presentation by discussing the proposed merger of Clifton Gunderson and Larson Allen LLP. Mr. Heseltine informed the Board that he did not foresee the merger having any impact on the team or the services to the Plan.

Mr. Heseltine then described the fiscal year 2010-2011 performance audit of NRS. David Fischer provided an overview of the key findings under the audit, the penalty amount calculated by Clifton Gunderson, NRS’s explanation of each finding, NRS’s proposed penalty amount, and Staff’s analysis and recommendation for the penalty amount that should be imposed by the Board in respect of each finding. A discussion of the findings ensued with particular focus on the penalty relating to the timing of the investment of deferrals. Mr. Fischer explained that the performance criteria requires NRS to invest all amounts deferred by participants within two business days of receipt of deferrals, and Clifton Gunderson determined that in ten instances, participant transactions were not posted until 3-12 days after they were received. However, Mr. Fischer explained that Clifton Gunderson was measuring these time periods based on the time between the payroll date and the investment date, rather than the date on which the deferrals were received and instructions were received by NRS. Mr. Fischer further noted that (i) any lapse between the payroll date and the date that deferrals are received by the Trustee of the Plan and (ii) any lapse between the payroll date and the date written instructions are received by NRS are both out of NRS’s control and are within the control of the participating employer. It was further noted that, if the time periods had been measured based on the date of receipt of the deferrals and instructions, there would not have been a finding in the performance audit.

Mr. Fischer gave an overview of the 2010-2011 audit results as compared with the 2009-2010 results. Mr. Fischer noted that in 2010-2011 there were fewer findings, and the total of the penalty amounts calculated by Clifton Gunderson (excluding the amount relating to the timing of investment of deferrals) was lower than in 2009-2010. Discussion ensued regarding each finding and Staff’s recommended penalty amounts. Mr. Cupoli moved to accept Staff recommended penalty amounts. Ms. Ritter seconded the motion and the motion was unanimously approved.

VI. GENERAL PLAN ISSUES

A. 2012 Plan Issues

Mr. Lilly gave an overview of upcoming matters affecting the Plan in 2012. Mr. Lilly discussed the various contracts that would expire in 2012 and early 2013, and Staff’s plans for issuing RFPs for those contracts.

B. 2012-2013 Preliminary Budget Presentation

Next, Mr. Lilly presented a preliminary administrative budget for fiscal year 2012-2013 to the Board. Mr. Lilly noted that Plan expenses for fiscal year 2012-2013 are approximately \$9,817,365, which is a 1.4% increase from fiscal year 2011-2012. Mr. Lilly stated that the increase was largely attributable to the increase in the number of Plan participants and the per participant fee payable to NRS. Mr. Lilly informed the Board that the estimated total expenses do not take into account the cost of the RFP for separate account managers for the Fund, which will increase the amount of the total expense. Mr. Lilly recommended a credit of \$600,000 to be used to offset 2012-2013 fiscal year administrative expenses. Mr. Lilly indicated that Staff would present a more detailed budget report in February 2012.

C. Discussion of TIPS

In response to a request made at the August 2011 public meeting of the Board that Callan conduct an analysis of the various inflation protection alternatives available to the Plan and the costs and benefits associated with each alternative, Ms. McKechnie provided the Board with an overview of Treasury Inflation Protected Securities (“*TIPS*”). Ms. McKechnie explained that, given the relatively recent adoption of TIPS by plans in the United States, it is difficult to anticipate how TIPS might actually perform during a period of inflation. Ms. McKechnie presented simulated illustrations of how TIPS could potentially perform in a rising inflation scenario. Ms. McKechnie concluded that Callan did not believe it was necessary at the present time to add a TIPS investment option to the Plan’s investment lineup, particularly given the availability of TIPS investment products in the investment fund window. Mr. Kline noted that participants have not indicated a strong interest in TIPS. After further discussion, the Board determined to continue to monitor interest in a TIPS alternative and re-address the issue in the future if there is greater interest.

VII. NRS PRESENTATION

Mr. Ray presented an overview of NRS activities during the last quarter. He began by providing an overview of the implementation of the In-Plan Roth rollover program. Mr. Ray then provided an overview of the enhanced fee disclosure that will be provided to participants. Mr. Ray noted that private sector defined contribution plans are subject to enhanced fee disclosure rules that are being required by the Department of Labor. While the Plan is not subject to these rules, Staff had recommended and the Board agreed to voluntarily comply with the private sector rules. Mr. Ray presented the Board with the updated draft form of the quarterly Investment Performance Report which will be included in participants’ statements for the fourth quarter of 2011, as well as a fee fact sheet which will provide further explanation of fees. Discussion ensued regarding the enhanced fee disclosure.

Mr. Ray next updated the Board on the status of the NRS initiative to add a Plan page on Facebook. Mr. Ray noted that current Facebook guidelines would require a Plan page to permit uncontrolled comments and posts. As a result, Mr. Ray recommended not proceeding with a Facebook page. Mr. Lilly noted Staff’s concurrence with this recommendation. A discussion ensued regarding various alternatives to a Facebook page. Ms. Ritter asked NRS to continue to pursue initiatives to make use of new technologies.

VIII. CALLAN PRESENTATION

Ms. McKechnie then presented Callan’s quarterly performance summary and an overview of the Plan’s domestic and international investment options. Ms. McKechnie reviewed the performance of each investment option over the last quarter, and each option’s five-year performance. Discussion ensued regarding her presentation.

IX. ADJOURNMENT

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

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Adrienne Hart
Secretary of the Meeting