



**NYS DEFERRED
COMPENSATION
BOARD**

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**FREDERICK J. JACOBS
DIANA JONES RITTER
MICHAEL A. AVELLA**

December 7, 2007

Memorandum To: Files

Minutes of the December 7, 2007
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 December 7, 2007, in the following locations, via video-conference: Conference Room 2E at the offices of Shearman & Sterling LLP, at 599 Lexington Avenue, New York, NY 10022, and Room 335 at the New York State Capitol, Albany, NY 12247. The meeting began at approximately 9:05 a.m. and adjourned at approximately 1:55 p.m. A separate memorandum to the files, also dated December 7, 2007, 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, Frederick Jacobs, Michael Avella

Staff Members: Edward Lilly, David Fischer, Craig Dickinson, Sharon DiMura, Dave Natoli

Shearman & Sterling LLP: Kenneth Laverriere, Doreen Lilienfeld, Valéria Sombra, Elizabeth Roseman, Nicole Grospe (Legal Assistant)

Nationwide Retirement Solutions: Patrick Ray, Brenda Anderson, Tom Weber, Ric Whetro, Stephen Angelis, Jill Chaney

Evaluation Associates LLC: Linda Schlissel, Kathy Bajorinas

The Bank of New York Mellon: Carol W. Hance

Dwight Asset Management: David Starr, David Westbrook

Clifton Gunderson: Thomas Heseltine

NEW YORK STATE DEFERRED COMPENSATION BOARD
ROOM 124, EMPIRE STATE PLAZA CONCOURSE - NORTH
P.O. BOX 2103
ALBANY, NY 12220-2103
(518) 473-6619 Fax: (518) 473-7255

Michael Avella attended the meeting at the New York State Capitol, and Frederick Jacobs, Diana Jones Ritter and all other participants attended the meeting at the offices of Shearman & Sterling LLP.

There were no members of the public in attendance.

Frederick Jacobs acted as Chairperson and Nicole Grospe acted as Secretary of the meeting. Mr. Jacobs called the meeting to order. In response to Mr. Jacobs' request for an overview, Edward Lilly presented a brief overview of the agenda and noted the agenda items requiring a Board vote.

I. Approval of Minutes

After reviewing the minutes of the public meeting and executive session of the Board held on September 7, 2007, Mr. Jacobs motioned to approve the minutes, Michael Avella seconded the motion, and the Board unanimously approved the minutes.

II. RFP Schedule

Mr. Lilly discussed the timelines for the RFPs for the Administrative Service Agency, Investment Managers, and Trustee/Custodian that will be issued in December, January, and February, respectively. Mr. Lilly then highlighted the recommended schedule for interviewing finalists and Board selection of providers.

Linda Schlissel then recommended re-issuing the RFP for the Transition Manager because some potential providers did not receive the RFP. The Board agreed with the recommendation, and Mr. Lilly suggested a meeting in January through video-conferencing for the selection of the Transition Manager.

III. Plan Budget

Mr. Lilly presented an overview of the 2008-09 Fiscal Year budget for the Deferred Compensation Plan for Employees of the State of New York and Other Participating Public Jurisdictions (the "**Plan**"), highlighting the overall expected expenditures, reimbursements and collections. A discussion ensued regarding the current fee structure and the various alternative fee structures available to the Plan. Mr. Lilly noted that the fee structure may be influenced by the investment structure to be implemented in the beginning of 2009. After discussion, the Board directed staff to enhance the disclosure of the current fee structure to participants and decided to discuss potential changes to the fee structure at a later Board meeting after more progress had been made on finalizing the investment structure for the Plan.

IV. Plan Documents and Amendments

Mr. Lilly summarized the proposed amendments to the Plan and Model Plan documents, implementing certain provisions of the Pension Protection Act of 2006, and

presented the Board with staff and Shearman & Sterling's recommendations to approve the proposed amendments. After discussion, Mr. Jacobs made a motion to approve the proposed amendments to the State Plan and Model Plan documents. Diana Jones Ritter seconded the motion and the Board unanimously approved the amendments.

V. Proposed Amendments to the Board's Rules and Regulations

Mr. Lilly discussed the proposed amendments to the Board's Rules and Regulations that would authorize the extension of the maximum length of certain contracts to up to ten years and the use of a search process for selecting investment managers for unbundled plans.

VI. PAX World Balanced Fund

Mr. Lilly presented staff's recommendation, in accordance with Ms. Schlissel's advice, to transition from the individual share class to the institutional share class of the Pax World Balanced Fund effective as of April 2008. Following a discussion of the characteristics of each relevant class, Mr. Jacobs moved to accept this recommendation. Mr. Avella seconded the motion and the Board unanimously approved the recommendation.

VII. Executive Session

Mr. Jacobs moved that the Board enter into executive session to discuss the responses to the Cash Manager RFP, issues relating to the securities lending contract, the Administrative Service Agency performance audit determinations, and the amendments to the Board's Rules. Mr. Avella seconded the motion and the Board concurred. The Board then conducted its business in executive session, whereupon Mr. Jacobs moved to adjourn the executive session with subsequent Board approval.

VIII. Proposed Amendments to the Board's Rules and Regulations

Mr. Jacobs requested an opinion from Shearman & Sterling in relation to the applicability of the procurement rules governing State agencies to contracts procured by the Plan and further discussing the fiduciary implications of allowing the Board to select investment managers through a search process. In the event the opinion of Shearman & Sterling that the State agency procurement rules do not apply to the Plan, Mr. Jacobs proposed a motion to approve the submission of the proposed amendments to the Board's Rules and Regulations for public comment as part of the rulemaking process. Ms. Ritter seconded the motion and the Board unanimously approved.

IX. Selection of Cash Manager

David Starr presented a recommendation to the Board to select BlackRock Financial Management to serve as Cash Manager for the Plan. Kenneth Laverriere asked Mr. Starr whether there are any relationships between BlackRock and Dwight that the Board needs to

be aware of. Mr. Starr responded that there is no direct relationship or financial consideration between the firms and that BlackRock is used as a manager within other portfolios that Dwight manages. Following a thorough discussion, Ms. Ritter moved to select BlackRock as Cash Manager and Mr. Jacobs seconded the motion. The Board unanimously approved the recommendation.¹

X. Performance Audit

Mr. Lilly referred to the Fiscal Year 2006-07 Performance Audit of Nationwide Retirement Solutions ("*Nationwide*"), the Plan's administrative service agency, performed by Clifton Gunderson. Tom Heseltine provided an overview of the audit process and benchmarks. Mr. Lilly identified deficiencies in ten audit criteria and indicated that Nationwide concurred with the findings in relation to six of the deficiencies. Mr. Lilly discussed the deficiencies and then presented staff's recommendation to impose the penalties agreed to by Nationwide, and to impose additional penalty amounts related to certain deficiencies in the VRS and website availability. The recommended penalties totaled \$96,500. Ms. Ritter moved to approve staff's recommendation and Mr. Avella concurred.

XI. Securities Lending

Mr. Laverriere presented a brief update on the securities lending amendment to the trust agreement with The Bank of New York Mellon ("*BoNY*"). Mr. Laverriere stated that negotiations with BoNY were complete and that he expected the amendment to be circulated for execution shortly. Mr. Laverriere emphasized that the amendment generally followed the terms proposed by BoNY during their presentation at the previous Board meeting.

XII. PBHG Distribution Plan and Plan Amendment

Ric Whetro of Nationwide presented an update on the PBHG Distribution Plan. Mr. Whetro indicated that the distribution was nearly complete in accordance with the terms of the distribution plan previously approved by the Board. Mr. Lilly then discussed the method that would be used to handle un-cashed checks, indicating that the checks would stay in the PBHG account for a period of time, and eventually would be rolled over to the Plan's general account.²

XIII. Nationwide Presentation

Patrick Ray began the Nationwide presentation with an overview of a number of significant accomplishments achieved by the Plan over the past year. Mr. Ray highlighted the large number of enrollments by CUNY employees, the completion of all mailings to participants regarding upcoming investment option changes, the completion of the required minimum

¹ Mr. Jacobs then left the meeting at approximately 11:00 a.m.

² Mr. Avella then left the meeting at approximately 11:30 a.m.

distributions to Plan participants, and summarized Nationwide's participation in certain outreach events.

Jill Chaney next discussed the HELPLINE activity and explained the failure to meet the performance criteria in one month, when call volume increased significantly as a result of changes to certain Plan investment options. Ms. Chaney assured the Board that Nationwide is making efforts to continue to improve service, including hiring additional employees, conducting more frequent call volume projections, and examining service representative schedules in light of peak call hours.

In response to Mr. Lilly's inquiry, Mr. Whetro outlined efforts to assist Plan participants to make an informed decision before leaving the Plan and noted the Plan's high retention rate in comparison to other states. Mr. Ray discussed Nationwide's current efforts in the areas of customer service and education, including web-based tools and information seminars. Mr. Ray specifically highlighted the use of phone calls to participants considering leaving the Plan to discuss the participant's options, the availability of HELPLINE counselors to answer questions and discuss various options and opportunities, and targeted education efforts. The Board agreed that additional education initiatives should be discussed in the upcoming year.

XIV. Investments Review

Ms. Schlissel presented an analysis of the International Equity Funds and the performance of the international equity fund managers. Ms. Schlissel noted that the investment managers are performing as expected and highlighted the excellent performance of Tradewinds and Martin Currie.

Kathy Bajorinas continued with a review of the domestic funds. Ms. Bajorinas presented a detailed analysis of the funds being frozen or eliminated and the funds receiving the proceeds from the eliminated funds.

XV. Dwight Asset Management Presentation

Mr. Starr reviewed Dwight's proposal for the investment strategy for maturing proceeds in the Stable Income Fund (the "**Fund**"). David Westbrook presented Dwight's intention to allocate proceeds maturing in April to the WAMCO Intermediate Term Portfolio and the Goldman Sachs Short Term Portfolio, which would improve the diversification of the Fund. Mr. Westbrook added that any excess cash in the BlackRock Cash Account should also be allocated between the same portfolios. Mr. Laverriere inquired as to whether the proposed strategy complied with the Fund's investment guidelines, and Mr. Starr confirmed that Dwight's recommendation followed the investment guidelines for the Fund. A general discussion then followed regarding the strategy during which the Board and staff asked Mr. Starr a number of questions regarding the strategy.

Mr. Starr then reviewed the performance and the current structure of the Fund. Mr. Starr highlighted key statistics such as increase in total assets and the Fund's diversification and yield. Mr. Starr also reviewed for the Board the Fund's limited exposure to the "sub-prime" sector and indicated that he did not anticipate any losses to the Fund as a result of these investments.

XVI. Adjournment

There being no further business to come before the meeting, Ms. Ritter adjourned the meeting at approximately 1:55 p.m.

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Nicole Grospe
Secretary of the Meeting