



NYS DEFERRED COMPENSATION BOARD

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DIANA JONES RITTER

EDWARD M. CUPOLI

ROBERT F. MUJICA

May 20, 2011

Memorandum To: Files

Minutes of the May 20, 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 May 20, 2011, in Conference Room 2C 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 3:00 p.m. A separate memorandum to the files, also dated May 20, 2011, lists the materials prepared for and referred to during the meeting.

In attendance:

Board Members:	Edward M. Cupoli, Robert F. Mujica
Staff Members (" Staff "):	Edward Lilly, David Fischer, Sharon DiMura
Shearman & Sterling LLP (" Counsel "):	Kenneth Laverriere, Veronica Wissel, Tiffany Sepulveda, Adrienne Hart (Legal Assistant)
The Bank of New York Mellon (" BNYM "):	William Claxton, Greg Wilcox, David K. Michaels
Nationwide Retirement Solutions (" NRS "):	Ric Whetro, Patrick Ray, Jill O'Callaghan, Keri Metres, Brenda Anderson
Evaluation Associates LLC (" EAI "):	Linda Schlissel, Kathy Bajorinas, John Smith
Dwight Asset Management Company LLC (" Dwight "):	Marie Mastro, David Starr
Clifton Gunderson LLP:	Tom Heseltine
Janus Capital Group Inc. (" Janus "):	Jonathan Coleman, John Brandt, Barney Wilson

Edward Cupoli acted as Chairperson and Adrienne Hart acted as Secretary of the meeting. Mr. Cupoli called the meeting to order and introduced and welcomed the newest member of the Board, Robert Mujica. Edward Lilly then presented a brief overview of the agenda.

I. APPROVAL OF MINUTES

The Board reviewed the minutes of the public meetings held on February 25, 2011 and April 13, 2011. Mr. Mujica moved to approve the minutes. Mr. Cupoli seconded the motion, and the Board unanimously approved the minutes.

II. GENERAL ISSUES

A. 2010-11 Budget and Expenditure Recaps

Mr. Lilly presented the Board with an overview of the Plan costs for the 2010-11 fiscal year. Mr. Lilly discussed the expenses associated with the Plan administration, the International Equity Portfolio (“*International Fund*”), the Stable Income Fund and the mutual funds. Mr. Lilly noted the Board’s general policy to use revenue from the fiscal year for expenses within that fiscal year, and to use any extra money to reduce participant fee levels. Mr. Lilly described the fee structures of the Stable Income Fund and the International Fund.

Mr. Lilly noted that the increase in the expense ratio of the Stable Income Fund resulted primarily from increased wrap fees. It was noted that wrap fee increases were mainly attributable to market pressure. A discussion ensued regarding the difficult nature of the market and rising wrap contract fees.

B. Foreign Exchange Transactions

Linda Schlissel and John Smith of Evaluation Associates LLC (“*EAF*”) presented the Board with an overview of foreign exchange transactions (“*FX Transactions*”) and a review of investment manager and custodian practices relating to pricing FX Transactions for the Plan.

Mr. Smith described the responses received from the Plan’s international investment managers with respect to their policies for pricing FX Transactions. Mr. Smith noted that any fees for FX Transactions conducted at the direction of the international investment managers are netted out of the proceeds of such manager’s portfolio, and ultimately are reflected in each fund’s performance. Accordingly, in their responses, each of the Plan’s investment managers noted that it takes appropriate measures to minimize the cost of FX Transactions. William Claxton, Greg Wilcox, and David Michaels of The Bank of New York Mellon (“*BNYM*”) noted that fund managers have authority to decide how to execute FX Transactions, and may instruct BNYM to conduct such transactions. Mr. Michaels explained that when FX Transactions are individually negotiated, the terms are generally more favorable than if the transaction is conducted on a “standing instruction” basis. Mr. Michaels also noted that investment managers decide whether to individually negotiate their FX Transactions or to direct BNYM to execute the trade. For the Plan, only a small percentage of the transactions were conducted on a standing instruction basis, which is the type of instruction that generally results in less favorable terms than an individually negotiated trade. Discussion ensued regarding FX Transactions and the pricing policies of the investment managers and BNYM. The Board determined that currently, FX Transactions are being conducted appropriately for the Plan.

C. Audit Update

Tom Heseltine of Clifton Gunderson LLP gave an overview of the status of the Plan audit, noting that the financial audit was nearly complete. Mr. Heseltine discussed the status of the performance criteria audit, noting that he has seen improvement over prior years. Mr. Heseltine gave an overview of the key issues in the performance audit and noted that most penalties have been resolved. Discussion ensued regarding the purpose of the performance audit. Mr. Lilly then reminded the Board that the Board may at any time request to meet privately

with the Plan's auditors. Mr. Lilly asked the Board whether it would like to meet in Executive Session, in the absence of Staff, with the auditors. Messrs. Cupoli and Mujica said they did not need to meet privately with the auditors at this time, but may do so in the future as a general practice.

III. IRS REVIEW OF MODEL AND STATE PLAN

Veronica Wissel of Shearman & Sterling LLP ("*Counsel*") gave an overview of the status of the Internal Revenue Service's ("*IRS*") review of the Board's request for a Private Letter Ruling in respect of the Model Plan and the State Plan. Ms. Wissel noted that the attorney from the IRS assigned to review the Model Plan and the State Plan Documents contacted Counsel with preliminary comments on the plans. Ms. Wissel noted that the IRS's comments were thus far very minor, and the Private Letter Ruling process seemed to be moving forward.

IV. EXECUTIVE SESSION

Mr. Cupoli moved that the Board enter into Executive Session to discuss issues related to the selection of the Stable Value Structure Manager. Mr. Mujica seconded the motion, and the motion passed. The Board then conducted its business in Executive Session, at the conclusion of which Mr. Mujica moved to adjourn the Executive Session. The motion was seconded by Mr. Cupoli and approved. The Board returned to public session.

V. PLAN ISSUES

A. Selection of Stable Value Structure Manager

Ms. Schlissel reviewed the procurement process that was followed in relation to the Board's need to contract with a firm to provide Stable Value Structure Management services and submitted a memorandum that recommended the selection of Dwight Asset Management Company LLC ("*Dwight*") as the Stable Value Structure Manager. Mr. Lilly noted that Board Staff concurred with this recommendation. Mr. Cupoli moved a Resolution to approve this selection. Mr. Mujica seconded the motion. The Resolution was adopted.

B. Audit Rule Amendment

Mr. Lilly provided an update regarding the proposed amendment to the Rules and Regulations related to the audit requirement. Mr. Lilly noted that the Board has solicited comments from the public and held a Public Hearing on the proposal. Mr. Lilly further noted that one comment was received stating that the proposed rule is an unfunded mandate. Discussion ensued regarding the fact that the audit amendment provided more flexibility to local plan sponsors than the current rule. Mr. Cupoli then moved a Resolution to approve the amendment to the Rules and Regulations, which motion was seconded by Mr. Mujica. The Resolution was adopted.

VI. ADMINISTRATIVE SERVICE AGENCY PRESENTATION

Patrick Ray from Nationwide Retirement Services ("*NRS*") presented an overview of NRS's activities over the last quarter. Mr. Ray noted that enrollment for this year is up ten percent from last year. Mr. Ray then discussed the April fee assessment and Mr. Cupoli asked whether NRS received any feedback from participants regarding fees. Jill O'Callaghan responded that NRS currently receives minimal feedback through the HELPLINE. Mr. Ray then gave an update on paperless statements, noting that the number of participants enrolling in paperless statements continues to increase.

At this time, Mr. Ray gave an overview on the due diligence visit to NRS facilities made by Staff. Mr. Lilly noted that one item discussed between Staff and NRS was whether to utilize social media (e.g., Facebook) as a communication tool. Discussion ensued regarding the benefits and risks of using social media. The Board

approved a continued exploration of whether to use social media communication tools, and NRS will present progress in this area at the Fall Board Meeting.

Next, Mr. Ray noted that NRS is developing a survey to administer through the HELPLINE to determine why some participants leave the Plan upon retirement or termination of service. A discussion ensued regarding participant retention issues, as well as ways in which NRS can make the website more user-friendly. Mr. Ray then gave an update on the roll-out of Roth contributions to the Plan. Ms. O'Callaghan provided an update on the HELPLINE and participation and deferral trends. Mr. Ray further discussed enrollment activity within the Plan, noting that deferrals in the Plan have almost doubled in the past two years.

VII. INTERNATIONAL INVESTMENT STRUCTURE

Mr. Lilly provided an update on the progress of EAI and Staff in developing a recommendation regarding the current International Fund structure, noting that the current contracts with investment managers expire next June. Ms. Schlissel gave an overview of the key issues relating to the International Fund, including the overall structure of the fund, the selection of a benchmark, and the selection of investment mandates. Ms. Schlissel recommended that the Board continue to offer custom separate account passive and active portfolios and use the MSCI EAFE Index. Ms. Schlissel presented the Board with an overview of international funds and participant investments in international funds. Ms. Schlissel provided a comparison of the MSCI EAFE Index to the MSCI ACWI Index. Ms. Schlissel noted how the different structures and benchmarks might increase or decrease participant exposure to emerging markets. Discussion ensued regarding how to provide opportunities for emerging markets investment without inadvertently overexposing participants to those markets. Ms. Schlissel then presented the Board with a proposed Request for Proposals ("**RFP**") timeline. Board members discussed the proposal, and Mr. Cupoli moved to approve the proposed International Fund structure with the same separate account structure, the use of the MSCI EAFE Index, and the proposed RFP mandates and timeline. Mr. Mujica seconded the motion. The motion was approved.

VIII. EXECUTIVE SESSION

Mr. Cupoli moved that the Board enter into Executive Session for a discussion of the potential wrap contracts for the Stable Income Fund with Marie Mastro and David Starr of Dwight. Mr. Mujica seconded the motion, and the motion passed. The Board then conducted its business in Executive Session, after which Mr. Mujica moved to adjourn the Executive Session, which motion was seconded by Mr. Cupoli and approved. The Board returned to public session.

IX. STABLE INCOME FUND PRESENTATION

Ms. Mastro and Mr. Starr of Dwight presented the Board with an update on the performance of the Stable Income Fund. Mr. Starr highlighted that the Stable Income Fund has outperformed the benchmark over all time periods. Mr. Starr warned of the possibility that increases in short-term interest rates could result in money market funds outperforming the Stable Income Fund. Ms. Mastro discussed the diversification of the Stable Income Fund and presented on the contract maturity schedules, noting that two GIC contracts are expiring in 2011. Ms. Mastro also provided an overview of current wrap capacity issues, and Dwight's plan to place maturing proceeds and continue to increase wrap capacity.

X. PORTFOLIO MANAGER PRESENTATION

Jonathan Coleman, John Brandt and Barney Wilson of Janus Capital Group Inc. ("**Janus**") gave a presentation to the Board on the Janus Fund. Mr. Coleman provided an overview of Janus' management, strategy, and investment philosophy. Mr. Wilson described Janus' current portfolio characteristics, top holdings and performance. A discussion of Janus' presentation ensued.

XI. EAI PRESENTATION

Kathy Bajorinas provided the Board with a review of the performance scorecards as of March 31, 2011 for the Plan's investment options. A discussion ensued regarding the performance of these funds.

XII. ADJOURNMENT

There being no further matters for discussion, Mr. Cupoli moved to conclude the meeting. Mr. Mujica seconded the motion, and the Board unanimously approved the motion. The Board meeting was adjourned at approximately 3:00 p.m.