



NYS DEFERRED COMPENSATION BOARD

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DIANA JONES RITTER

EDWARD M. CUPOLI

JOSEPH F. PENNISI

September 2, 2010

Memorandum To: Files

Minutes of the September 2, 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 September 2, 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 2:30 p.m. A separate memorandum to the files, also dated September 2, 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, James Kiyonaga, Craig Dickinson
Shearman & Sterling LLP (" Counsel "):	Kenneth Laverriere, Veronica Wissel, Adrienne Hart (Legal Assistant)
The Bank of New York Mellon (" BNYM "):	Gregory Wilcox
Nationwide Retirement Solutions (" NRS "):	Ric Whetro, Steve Somen, Patrick Ray, Jill O'Callaghan, Brenda Anderson
Evaluation Associates LLC (" EAF "):	Linda Schlissel, Kathy Bajorinas
Dwight Asset Management (" Dwight "):	David Starr, Marie Mastro
Clifton Gunderson:	Thomas Heseltine
New York State Society of CPAs (" NYSSCPA "):	Scott Adair, Bradley Pryba, Thomas Zuber
Eaton Vance:	Katharine Kasper, Stephen Kaszynski
Member of the Public:	Jason Kephart

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. Ms. Ritter opened by announcing that due to her recent appointment as Managing Director of the Metropolitan Transportation Authority (the “*MTA*”), in order to avoid any potential conflict of interest or any appearance of a conflict of interest, she would recuse herself from all discussions and decisions of the Board related to Board matters that might affect the MTA as a sponsor of a model plan, including, except where advised otherwise by the Board’s legal counsel, general matters relating to model plans and model plan sponsors.

I. EXECUTIVE SESSION

Ms. Ritter moved that the Board enter Executive Session to discuss the selection of the Plan’s Independent Investment Consultant. Edward Cupoli seconded the motion and the motion passed. The Board then conducted its business in Executive Session, whereupon Ms. Ritter moved to adjourn the Executive Session, which was seconded by Mr. Cupoli, and the Board returned to public session.

II. APPROVAL OF MINUTES

Following the Executive Session, the Board reviewed the minutes of the public meetings held on May 21, 2010, July 23, 2010 and August 20, 2010. Ms. Ritter moved to approve the minutes for all three meetings, Joseph Pennisi seconded the motion, and the Board unanimously approved the minutes.

III. PLAN ISSUES

A. Selection of Independent Investment Consultant

Edward Lilly then gave an overview regarding the finalists interviewed by the Board on August 20, 2010 to be the Plan’s Independent Investment Consultant. The finalists were Callan Associates, New England Pension Consultants, and Evaluation Associates LLC (“*EAI*”). Noting the Board’s discussion of the finalists and the superior service the Board has received from EAI in the past, Mr. Cupoli moved to continue the Board’s relationship with EAI. Ms. Ritter seconded the motion and the Board unanimously selected EAI to continue as the Board’s Independent Investment Consultant under a new five-year contract, subject to final contract negotiations with legal counsel.

B. Selection of Separate Account GIC Provider

David Starr and Marie Mastro of Dwight presented an overview of the responses to the separate account GIC provider Request for Proposals (“*RFP*”), and the interviews of the two finalists conducted by Dwight, EAI and Staff: Metropolitan Life (using sub-manager JP Morgan) and New York Life (using sub-manager MacKay Shields, which is a wholly-owned subsidiary of New York Life). Ms. Mastro described the finalists and the criteria used to evaluate them. Dwight recommended that the Board select New York Life and MacKay Shields for the short duration and intermediate duration provider. Mr. Starr briefly described Dwight’s existing relationships with the finalists and disclosed that Dwight has placed or negotiated, or is in the process of placing or negotiating, GICs and separate account contracts from New York Life and Metropolitan Life on behalf of its clients, and that JP Morgan is a sub-advisor for one Dwight stable value client. A discussion ensued regarding the quality and level of services offered by New York Life and MacKay Shields compared to those offered by Metropolitan Life and JP Morgan. Mr. Pennisi moved to select New York Life/MacKay Shields as the separate account GIC provider under a ten-year contract. Mr. Cupoli seconded the motion and the Board unanimously approved the motion.

C. Budget Presentation and October Administrative Fee

Mr. Lilly presented the Board with an update of the Plan's 2010-11 administrative budget, which provided for an annualized asset-based fee of 5.6 basis points to be levied in 2010-11 (2.8 basis points to be levied in each of April and October). Mr. Lilly noted that the administrative budget had assumed that Plan asset levels would remain steady, which was generally the case, although the Plan's equity assets continued to experience market volatility. Mr. Lilly then presented Staff's recommendation to maintain the asset-based 2010-11 administrative fee at 2.8 basis points for the October levy. Ms. Ritter moved to approve the October 2010 asset-based fee of 2.8 basis points. Mr. Pennisi seconded the motion and the fee was unanimously approved by the Board.

D. Review of Model Plan Document

David Fischer then gave an overview of the status of the draft amendment to the Model Plan document. Ms. Ritter recused herself from the discussion. Mr. Fischer presented the Board with a copy of the draft amendment and described its key features. He noted that Staff has sent the draft to Model Plan sponsors and has made it available for review on the Board website. Staff has requested comments on the document by October 15, 2010, and as of the date of the Board meeting, no comments had been received. Mr. Lilly also noted that Staff intends to provide final drafts of the State Plan and Model Plan amendment and restatements incorporating all comments for the Board's review and final approval at the next quarterly Board meeting.

E. Discussion of Small Cap Value Offering

Linda Schlissel of EAI provided the Board with an update on the status of the small cap value investment option. Ms. Schlissel informed the Board that, since the Board decided to close the Invesco U.S. Small Cap Value Fund effective August 2, 2010, the assets previously held in such fund had been transferred to the Vanguard Small Cap Index Fund. Ms. Schlissel noted that while Staff had not received any complaints or concerns from participants regarding the Invesco closure, the small cap value option is important to the Plan's fund line-up. A discussion took place regarding whether to issue an RFP for a new small cap value fund to replace Invesco. The Board then directed EAI and Staff to conduct an RFP for a small cap value fund.

F. Update on Suffolk County AME Suit

Mr. Lilly provided the Board with an overview of the Suffolk County Association of Municipal Employees (the "*AME*") lawsuit. Ms. Ritter recused herself from this discussion. Mr. Lilly gave some background on the lawsuit, describing the complaint filed by the AME to permit Suffolk County Community College employees represented by AME to participate in the Suffolk County deferred compensation plan. Mr. Lilly noted that Staff had determined that since the Suffolk County Community College had become a separate employer from the county, employees of the Suffolk County Community College could not participate in the Suffolk County deferred compensation plan. Mr. Lilly further noted that the complaint has been referred to the Attorney General's office and that Staff will inform the Board of any new developments that may arise at or before the next Board meeting.

G. Report of Task Force on Audits

Members of the Task Force from the NYSSCPA (the "*Task Force*") then provided an overview of its efforts to develop a recommendation for audit requirements for local plans. Ms. Ritter recused herself from the discussion. Scott Adair described one approach under consideration by the Task Force, which would be to recommend an agreed-upon procedures report requirement for small plans in place of a full financial statement audit. A discussion ensued regarding agreed-upon procedures reports versus financial statement audits. Mr. Cupoli asked Mr. Adair to provide a specific list of different agreed-upon procedures that could be

incorporated into the local plan audit requirement at the next Board meeting. It was determined that the Task Force would present a full report and recommendations at the next quarterly Board meeting, and would disclose any potential conflicts of interest at that time.

IV. AUDIT REVIEW

Tom Heseltine presented the Board with the results of the audit of Financial Statements of the Plan, the performance criteria and agreed-upon procedures report. For the financial statement audit, Mr. Heseltine noted that Clifton Gunderson gave an unqualified opinion and did not have any journal entries to disclose. Mr. Heseltine also noted that there were no significant changes in the footnotes for the financial statement audit.¹

Mr. Heseltine then presented the Board with a report on the performance criteria and agreed-upon procedures. He noted that for fiscal year 2009-10, there were exceptions in twelve of the performance criteria that were tested, six of which were also noted in the fiscal year 2008-09 performance audit. Mr. Lilly presented the Board with a comparison of this year's performance audit results compared with last year's results. Discussion ensued regarding the exceptions in the performance and the improvements that have been made since last year, as well as those areas that continue to raise concerns. Ric Whetro from NRS noted that NRS was in the process of preparing responses to Clifton Gunderson's report, which will be presented to the Board at the next quarterly meeting.

V. NRS PRESENTATION

Mr. Whetro introduced Steve Somen, the new NRS Vice President of Operations. Mr. Somen briefly introduced himself and described his role at NRS.

Patrick Ray provided an overview of the Plan's deferral and enrollment activity, noting that year-to-date deferrals and enrollment activities have increased in 2010. Mr. Ray noted that 48 new employers have adopted the Plan in 2010. A discussion ensued on reaching out to villages and smaller towns. Mr. Ray also discussed the success of the "Missing Piece" campaign within several state agencies. Jill O'Callaghan provided the Board with an update of the HELPLINE, noting NRS's efforts to educate participants on the importance of deferrals.

VI. STABLE INCOME FUND REVIEW

Mr. Starr provided the Board with a regulatory update on the stable value market in light of recent legislation. Mr. Starr noted that the market for stable value wrap products continues to be restricted, and Dwight continues to seek wrap capacity for the Fund. Ms. Mastro then gave an overview of the Plan's Stable Income Fund's (the "*Fund*") investment performance. Ms. Mastro discussed the Fund's performance and reviewed the current market to book value and spot yield. Ms. Mastro informed the Board that the NISA portfolio is maturing in September, and will be transferred to EARNEST Partners and Goldman Sachs (short duration #2) on October 1. Ms. Mastro noted that she expects MacKay Shields to be a very good diversifier and the fund is on track to meet the projected diversification goals set for December 31, 2010.

VII. EAI PRESENTATION

Ms. Schlissel and Kathy Bajorinas reviewed the performance of the Plan's investment options for the quarter ending June 30, 2010. A discussion ensued regarding the performance of the various investment options against their benchmarks. Ms. Bajorinas showed the quarterly results next to annual results and

¹ Ms. Ritter left the meeting at this time. Before she left, she thanked Craig Dickinson for his service to the Plan and the Board and congratulated him on his imminent retirement.

discussed which funds EAI expected to fare better and worse given market conditions and such funds' investment strategies. In general, Ms. Schlissel and Ms. Bajorinas noted that they were satisfied with the current array of investment options and think the options continue to provide participants with a diverse array of fund types.

VIII. PORTFOLIO MANAGER REVIEW

Katharine Kasper and Stephen Kaszynski from Eaton Vance provided the Board with a review of the Eaton Vance Large Cap Value Fund. Mr. Kaszynski gave an overview of asset management, personnel and management at Eaton Vance. Mr. Kaszynski described Eaton Vance's investment philosophy and described the large cap value fund strategy. Mr. Kaszynski then provided an overview of the performance of Eaton Vance's investment returns over 1, 3, and 5 years, as well as a calendar-year history of large-cap value funds. Discussion ensued regarding the Eaton Vance 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 2:30 p.m.

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Adrienne Hart
Secretary of the Meeting