



February 21, 2014

Memorandum To: Files

Minutes of the February 21, 2014
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 February 21, 2014, in Room 2E of the offices of Shearman & Sterling LLP in New York, New York. The meeting began at approximately 9:10 a.m. and adjourned at approximately 3:00 p.m. A separate memorandum to the files, also dated February 21, 2014, lists the materials prepared for and referred to during the meeting.

In attendance:

Board Members:	Edward M. Cupoli, Robert F. Mujica, Diana Jones Ritter
Staff Members (“ Staff ”):	Edward Lilly, David Fischer, Sharon Lukacs, Peter Drao
Shearman & Sterling LLP (“ S&S ”)	Kenneth Laverriere, Regina Park, Sara Nosaka
The Bank of New York Mellon (“ BNYM ”):	David Blakeley
GSAM Stable Value, LLC (“ GSAM ”):	John Axtell, Marie Mastro, John Bisset
Callan Associates Inc. (“ Callan ”):	Karen McKechnie, Millie Viqueira
Nationwide Retirement Solutions (“ NRS ”):	Keri Metres, Jill O’Callaghan, Patrick Ray, Renee Spencer
Eaton Vance Investment Managers (“ Eaton Vance ”):	John Crowley, Laura MacDonald
Other Attendees:	Robert Steyer (<i>Pensions & Investments Magazine</i>)

Diana Jones Ritter acted as Chairperson and Sara Nosaka acted as Secretary of the meeting. Ms. Ritter called the meeting to order at 9:10 a.m.

I. APPROVAL OF MINUTES

The Board reviewed the minutes of the public meeting held on December 13, 2013. Edward Cupoli moved to approve the minutes. Robert Mujica seconded the motion, and the Board unanimously approved the minutes.

II. INVESTMENT CONSULTANT PRESENTATION

A. Investment Option Overview

Karen McKechnie began the presentation with an overview of the changes the Board previously made to the Plan's investment options and their impact on portfolio allocations. The changes included the selection of a Stable Value Structure Manager, establishment of a unitized separate account structure for active and passive international equity options, and the implementation of a three-tier investment framework for the investment options offered to participants under the plan. Ms. McKechnie highlighted the addition of the T. Rowe Price Target Date Funds to the Plan's investment options in 2009, noting a significant growth in usage of these funds by participants.

To provide the Board with a market perspective on the Plan's investment lineup, Ms. McKechnie reviewed the results from Callan's survey of defined contribution ("**DC**") plans. In particular, she noted that two features of the Plan's investment structure – the three-tier investment framework and the strategy of offering active and passive investment options in major asset classes – are prevalent among DC plans. Millie Viqueira reported that an average DC plan offers 14 funds, while the Plan has 23. Ms. McKechnie also noted the general decrease in the use of mutual funds and the increase in the use of separate accounts as a means to reduce fees. A general discussion then followed about the duties and responsibilities of the Board and Staff in overseeing investment options that consist of one or more separate accounts.

Ms. McKechnie then recommended that the Board conduct an investment structure review in mid-2015 to identify any gaps or overlaps in the Plan's investment offerings. She also stated that the Trustee Custodian contract will expire in March 2015, and that a Request for Proposals ("**RFP**") will be distributed by late July 2014. She also noted that the Administrative Service Agency contract, Stable Value Structure Manager contract, and Mutual Funds contracts will expire in early 2016, late 2016, and early 2017, respectively; and RFPs will be distributed for each by early 2015, late 2015, and mid-2016.

A general discussion then followed regarding the content of Ms. McKechnie's presentation and the steps the Board would need to take to address the expiring contracts and the investment structure for the Plan.

B. International Equity Portfolio Guidelines

Ms. McKechnie next addressed the request by MFS Institutional Advisors ("**MFSIA**") to increase the sector allocation maximum under the Plan's International value mandate from 20% to 25%. Ms. McKechnie noted that, given the importance of sector diversification and the flexibility already embedded in the investment guideline, Callan was recommending that the Board not make the change requested by MFSIA. The Board then discussed the MFSIA request and Callan's recommendation and,

following this discussion, the Board agreed with Callan that the changes requested by MFSIA to the investment guidelines should not be made.

C. Performance Review

Ms. McKechnie then provided an overview of the Plan's investment performance over the last quarter. She noted the strength of equity markets throughout the quarter, with the MSCI EAFE benchmark reflecting a strong year for international established markets and a weaker year for international emerging markets. She further highlighted the strong performance of Target Date Funds, which she attributed, in part, to the high equity allocation determined by the glide path for the funds. Ms. McKechnie concluded her discussion by reporting organizational changes that took place in the funds offered through the Plan.

III. GENERAL PLAN ISSUES

A. Fiduciary Overview

Ken Laverriere of S&S presented an overview of the responsibilities of plan fiduciaries under both New York law and ERISA and answered various questions from the Board and Staff regarding the content of the presentation.

B. Proposed 2014-2015 Budget

Ed Lilly stated that there would be no changes in anticipated expenditures from the preliminary budget that was presented at the December Board meeting. The expected overall expenditures are \$10,094,292, representing a 3.0% increase from the fiscal year 2013-2014. Mr. Lilly attributed most of the increase to the increase in the number of Plan participants and the resulting increase in the per-participant cost charged by Nationwide under its contract with the Board. Mr. Lilly indicated that, based on the current market value of Plan assets, the asset-based fee is anticipated to be 4.2 basis points. A motion to adopt the administrative budget for the fiscal year 2014-2015 was made, and Board unanimously approved the motion.

Mr. Lilly stated that the proposed Executive Budget submitted to the Legislature provides a General Fund appropriation of \$111,000. Mr. Lilly noted that this is the same appropriation as provided in the 2013-2014 fiscal year.

At approximately 11:20 a.m., the Board went into executive session with S&S and Staff to discuss the legal issues related to deferrals to the Plan from disability payments made pursuant to Section 209-C of the State Finance Law. The Board returned from executive session at approximately 11:55 a.m. and the meeting continued in public session.

IV. ADMINISTRATIVE SERVICE AGENCY PRESENTATION

Renee Spencer from NRS presented new marketing concepts designed to attract and retain Plan participants. Patrick Ray then provided a summary of the administrative highlights of the Plan. He reported that enrollment activity has experienced a significant increase in the past two years, noting that 2013 enrollments increased by 22% from 2012. Mr. Ray also provided a summary of conversions from the model and local plans that have taken place in 2013. Jill O'Callaghan then gave a status update on

NRS's effort to encourage participants to update beneficiary information. Mr. Lilly reported that about 900 people, out of the 3600 that received mailings asking to update their beneficiary information, have responded to NRS with the appropriate information.

V. STABLE INCOME FUND

John Axtell of GSAM gave an overview of the ongoing organizational integration within GSAM and the expansion of its operational staff. Marie Maestro discussed the RFP for separate account contracts with investment managers that would be independently wrapped by wrap providers identified by GSAM, and insurance company separate accounts. She reported that the RFP has received great interest and that the closing date for submissions is in mid-March. Ms. Mastro and John Bisset then provided a performance review of the Stable Income Fund in the last quarter. They noted that GSAM expects moderate growth in 2014. Mr. Bisset provided a summary of sub-manager returns, noting that half of the fixed income managers surpassed their benchmarks for the entire year in 2013.

VI. PORTFOLIO REVIEW

John Crowley and Laura MacDonald from Eaton Vance then joined the meeting. They presented an overview of Eaton Vance's approach to "value" investing, its investment strategy and recent performance. Mr. Crowley emphasized Eaton Vance's focus on downside protection and high quality stocks at the high end of the capitalization continuum. Ms. MacDonald noted that Eaton Vance has experienced improved performance this year, outperforming its benchmark and the Morningstar Peer Group year to date. Mr. Crowley then discussed past underperformance and the role that stock selection and market factors played in that underperformance. A general discussion then followed regarding the presentation, during which Mr. Crowley and Ms. MacDonald answered various questions from the Board, Staff and the Board's advisers regarding performance and investment strategy. Following this discussion, Mr. Crowley and Ms. MacDonald left the meeting, whereupon Ms. McKechnie offered a brief evaluation of the Eaton Vance presentation.

There being no further issues to discuss, the meeting was adjourned at approximately 3:00 p.m.

Sara Nosaka
Secretary of the Meeting