



**NYS DEFERRED
COMPENSATION
BOARD**
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DIANA JONES RITTER
EDWARD M. CUPOLI
ROBERT F. MUJICA

May 17, 2013

Memorandum To: Files

Minutes of the May 17, 2013
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 17, 2013, in Room 2E of the offices of Shearman & Sterling LLP in New York, New York. The meeting began at approximately 9:00 a.m. and adjourned at approximately 2:20 p.m. A separate memorandum to the files, also dated May 17, 2013, lists the materials prepared for and referred to during the meeting.

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, Jennifer Stadler, Sara Nosaka
The Bank of New York Mellon (“ BNYM ”):	David Blakeley, Greg Wilcox
Dwight Asset Management Company LLC (“ Dwight ”):	David Starr, Marie Mastro, John Bisset
Callan Associates Inc. (“ Callan ”):	Mark Kline, Karen McKechnie, Millie Viqueira
Nationwide Retirement Solutions (“ NRS ”):	Brenda Anderson, John Carter, Keri Metres, Patrick Ray, Ric Whetro, Eric Stevenson
Davis Advisors (“ Davis ”):	Christopher Davis, Jessica Jennings

Diana Jones Ritter acted as Chairperson and Sara Nosaka acted as Secretary of the meeting. Ms. Ritter called the meeting to order at 9:00 a.m.

I. APPROVAL OF MINUTES

The Board reviewed the minutes of the public meeting held on February 22, 2013. Edward Cupoli moved to approve the minutes. Robert Mujica seconded the motion, and the Board unanimously approved the minutes.

II. ADMINISTRATIVE SERVICE AGENCY PRESENTATION

Edward Lilly introduced John Carter, the new President and Chief Operating Officer of NRS. Mr. Carter briefly described his goals for NRS, the New York State Deferred Compensation Plan (the "**Plan**") and retirement plans in general. Mr. Carter announced that Mike Carrel has been appointed as Vice President – Retirement Plans IT and that NRS is currently looking to fill the vacant operations management positions. Ms. Ritter asked that NRS keep the Board updated on the hiring process for these new positions. NRS offered to bring Mike Carrel to the August 23 Board meeting to meet the Board.

Patrick Ray discussed recent updates on the NRS website and HELPLINE. He explained the implementation of improvements to account statements, the layout of data on the website and the service center for the HELPLINE. Mr. Ray noted that, following the drop in service last October, the HELPLINE's service level has been recently meeting its target levels for performance. He provided a summary of the highlights in the Plan over the last quarter. Mr. Ray also stated that enrollment activity has increased 20% in 2012 from 2011 and 63% in January 2013 over 2012 totals for January to April.

Mr. Ray then explained that some of the increase in enrollment activity is due to the Tell-a-Friend Initiative and recent adoptions of the Plan by towns, villages and other state entities. He noted that in the past ten years, 830 municipalities had elected to join the Plan, increasing the total number of participating public jurisdictions to almost 1,600 municipalities participating in the Plan. Mr. Ray then explained that NRS has focused much of its effort on its conversions in 2013, and noted that NRS staff members have visited the various towns throughout the conversion process.

Mr. Ray explained that, on May 16, 2013, both the Fidelity Magellan Fund and the Janus Fund were removed as investment options for the Plan. He confirmed that the assets from those funds had been moved to the Vanguard Institutional Index Fund and the Principal Large Cap Growth Fund, respectively. A general discussion then ensued regarding the transition and how it had been implemented successfully.

Mr. Ray next provided a summary of administrative highlights for the Plan. He explained that the annual due diligence meeting for the Plan was attended by Mr. Lilly and David Fischer and was held for the purpose of reviewing all aspects of Plan administration, processing, security, marketing and other enhancements.

Following Mr. Ray's presentation, Ms. Ritter expressed the Board's gratitude for the NRS team's efforts over the quarter.

III. STABLE INCOME FUND

A. Extension of Investment Manager Agreements

David Starr, Marie Mastro and John Bisset of Dwight presented their recommendations to the Board regarding the Stable Income Fund (the "Fund"). Mr. Starr described Dwight's recommendation to the Board to extend the investment manager agreements for the Goldman Sachs Asset Management ("**GSAM**") intermediate portfolio and the Blackrock ("**BlackRock**") short portfolio for one additional year, until September 30, 2014. Mr. Starr noted that both GSAM and BlackRock have continued to outperform their benchmarks. Mr. Starr noted for

the Board Dwight's affiliation to GSAM, and indicated to the Board that the affiliation had not affected Dwight's decision with regard to the extension of the GSAM contract. A general discussion then ensued regarding the extension of the two contracts.

In response to Ms. Ritter's question regarding the timing of the process to select new investment managers in anticipation of the expiration of the current contracts, Mr. Lilly stated that a request for proposals ("**RFP**") would be issued beginning next January, and the new managers and wrap providers would be selected by May.

Mr. Cupoli asked Mr. Starr for a further explanation of Dwight's recommendation to extend GSAM's and Blackrock's contracts, noting that the management fees were higher than those of other managers. Mr. Starr explained Dwight's view that, despite the higher fees, GSAM's and BlackRock's funds consistently outperform benchmarks and provide incremental returns for Plan participants. Mr. Starr also noted that the fees appear higher than those of other managers because the services are "unbundled," meaning that the services and fees of the managers are separate from those of the wrap providers. In contrast, Mr. Starr explained that bundled agreements (providing both management and wrap coverage) usually provide for some discount because the same firm provides both management services and wrap coverage. To supplement his explanation, Mr. Starr agreed to provide the Board with Dwight's written summary of the managers' returns.

Further discussion then followed. After this discussion, Mr. Cupoli made a motion to adopt the recommendation to extend the manager contracts for the GSAM intermediate portfolio and the Blackrock short portfolio through September 2014. Mr. Mujica seconded the motion and the Board unanimously approved the motion.

B. Updates to Investment Guidelines

Mr. Bisset presented Dwight's recommendation to revise the current cash portfolio investment guidelines. Mr. Bisset explained that the guidelines were originally developed in 2003 and updated in 2008 and, since then, the fixed income market has evolved in a number of significant respects. Mr. Bisset described Dwight's recommendations to expand and refine the investment guidelines to enhance liquidity, capital preservation, and diversification. In response to questions from the Board, Mr. Bisset clarified that the updated guidelines would allow managers to invest up to 10% of fund assets in lower quality investment-grade securities (rated A-2/P-2) that are more liquid. Ms. Mastro confirmed that the proposed revisions to the investment guidelines would not conflict with any of the Plan's current wrap agreements, and, further, that Dwight had obtained written approval of the proposed investment guidelines from the Plan's wrap providers. A further discussion then followed regarding the impact of the investment guideline changes for the Fund. In response to a question, Dwight agreed to provide the Board with information on the overall liquidity of the Fund and an analysis of historical default risk of the proposed investments. Following further discussion, the Board agreed to table the proposed revision to the cash portfolio investment guidelines in order to have the opportunity to more fully consider the risks and benefits of the proposed updates.

C. Overview of Stable Income Fund

Ms. Mastro then gave an overview of the performance of the Fund. Ms. Mastro then summarized Dwight's findings after conducting an interest rate sensitivity analysis of the Fund using four scenarios of rising interest rates. The Board then discussed the implications of Dwight's scenario analysis. Ms. Mastro noted that, while continuously increasing interest rates are unlikely, a potential increase could affect the health of the Fund and the ability of the Plan to attract new wrap providers.

IV. PORTFOLIO REVIEW

Chris Davis and Jessica Jennings from Davis joined the meeting. Ms. Jennings presented the history of the Davis New York Venture Fund (the "*Davis Fund*"), and Mr. Davis provided an overview of the firm's investment strategies and the substantial investment in the Davis Fund by professionals at the firm. Mr. Davis then discussed the performance of the Davis Fund over five- and ten-year periods. Mr. Davis next addressed the fund's relative poor performance over recent periods and the factors that contributed to that performance. A general discussion then followed regarding Mr. Davis' presentation, with Mr. Davis answering various questions about his firm and the Davis Fund from the Board and its advisers. Mr. Davis and Ms. Jennings then left the meeting.

After the presentation from Davis, Mark Kline and Karen McKechnie from Callan commented on Davis' underperformance. Mr. Kline expressed that Callan has a favorable view of the investment strategy and philosophy of Davis, but recommended that the Board continue to monitor the performance of the Davis Fund. A general discussion then followed regarding the differences between the Davis Fund and the recently eliminated Janus Fund and Fidelity Magellan Fund, and, in response to a question from the Board, Ms. McKechnie confirmed that the Davis Fund is distinguishable from the Janus Fund and Fidelity Magellan Fund in terms of management stability and long-term performance, but reiterated that Callan would continue to closely monitor its performance.

V. INVESTMENT CONSULTANT PRESENTATION

Mr. Kline and Ms. McKechnie introduced Millie Viqueira, Callan's selection to succeed Mr. Kline following his upcoming retirement. Mr. Lilly indicated that he had previously met with Ms. Viqueira and was delighted to have her and Ms. McKechnie as part of the Callan team going forward.

Ms. McKechnie then provided an overview of the Plan's investment performance, focusing on those individual funds with recent periods of underperformance. Ms. McKechnie explained that, despite the periods of underperformance, the funds and their managers have otherwise been relatively stable, and the level of underperformance was not a cause for concern from Callan's perspective.

VI. GENERAL PLAN ISSUES

A. 2012-2013 Plan Costs

Mr. Lilly gave a summary of the total administrative and investment related expenses of the Plan in the 2012-2013 fiscal year. Total Plan costs were about \$66.7 million. Mr. Lilly explained that, as a percentage of Plan assets, expenses had declined from 49.3 basis points in 2011-2012 to 47.8 basis points in 2012-2013. Mr. Lilly noted that administrative costs decreased from 7.2 basis points in 2011-2012 to 6.7 basis points in 2012-2013.

B. Administrative Budget

Mr. Lilly stated that actual expenditures from the 2012-2013 fiscal year have totaled \$9,348,518, and that this amount was \$438,677 less than the anticipated expenditures. Mr. Lilly explained that total expenditures for Plan administration exceeded actual revenues by \$265,820; however, this deficit was anticipated and covered by the crediting of \$935,000 from the balance in the Plan's Deferred Expense Account. Taking this carryover from the Deferred Expense Account, Mr. Lilly explained that revenues exceeded expenses by \$669,180.

Mr. Lilly noted that \$400,000 of this budget surplus will be credited to offset the asset-based fees for the 2013-2014 fiscal year.

C. MWBE Annual Report

The Board then discussed the Plan's Minority and Women Owned Business Enterprise ("**MWBE**") policy (the "**MWBE Policy**"), adopted on February 24, 2012, in accordance with subdivision 2 of section 5 of the State Finance Law to ensure the inclusion of MWBE asset managers and MWBE financial and professional service firms in the Plan's RFPs. Mr. Lilly provided a summary of the MWBE Policy and the Board's efforts to ensure that MWBE enterprises were included in the four RFP processes conducted by the Board during fiscal year 2012. Mr. Lilly distributed a draft report summarizing the Board's compliance with the MWBE Policy for approval by the Board. Ms. Ritter questioned whether the lack of experience of MWBEs is enough reason to select more experienced managers and other service providers, stating that MWBEs will not be able to gain the necessary experience if the opportunities are not provided to them. It was acknowledged by the Board that potential opportunities could be presented to MWBEs that would not jeopardize the assets of the Plan. After further discussion, Mr. Cupoli motioned to adopt the draft MWBE Policy compliance report, and Mr. Mujica seconded the motion. The Board then adopted the draft report.

There being no further issues to discuss, the meeting was adjourned at approximately 2:20 p.m.

Sara Nosaka
Secretary of the Meeting