



Important notice regarding NYSDCP International Fund changes, June 2022

You are receiving this supplemental newsletter because you are currently invested in one or both of the Plan's international funds. We will outline what is changing, when it will occur, why it is happening, and what you may need to do - if anything.

What is Changing?

Effective June 13, 2022, the International Active Fund will be managed by the Principal Diversified International CIT, and the International Passive Fund will be managed by the Fidelity Global ex U.S. Fund (FSGGX). Additionally, the Plan will begin offering a new international growth mutual fund, the Fidelity International Capital Appreciation Fund (FAPCX). Effective on this date, the funds will be managed to a new benchmark called the ACWI ex US.

Why is the Plan Changing the Structure of the International Funds?

In 2007, the Plan changed the structure of the international funds from mutual funds to separate accounts to create the current NYSDCP International Equity Active Portfolio comprised of multiple underlying sub-advisors, and the NYSDCP International Equity Index Portfolio. At the time, separate accounts offered lower costs than mutual funds and avoided challenges of frequent trading that affected performance.

Today, the Plan now has access to new investment vehicles like Collective Investment Trusts (CITs), which were much less common 15 years ago, and mutual funds that can now be offered in share classes at a much lower cost than before.

Some participants invested in the current NYSDCP International Funds felt that the current separate account structure is hard to understand, and performance information cannot be accessed easily. With the assistance of the Plan's investment consultant, the Board heard these concerns and searched for international funds that were either CITs or mutual funds as standalone options.

A New Benchmark

A benchmark is an index of a class of investments used for purposes of analyzing and comparing an investment manager's performance. Indexes are a group of investments that are used to represent a certain group of securities, such as U.S. large capitalization stocks. For example, the Standard & Poor's 500 or Dow Industrials indices are used to represent larger U.S.-based publicly-traded companies.

In the past, the MSCI EAFE index was used to represent companies in Europe, Australasia, and the Middle East. Today, emerging economies and many other areas of the world are sources of investment growth resulting in the need for a benchmark that represents most of the world outside of the United States. The MSCI ACWI ex U.S., which stands for "All Country World Index" minus the United States, is the commonly used benchmark for these purposes, as it includes developed and emerging markets outside U.S. whereas the EAFE only includes developed markets. Many international investment managers manage to the MSCI ACWI ex US benchmark today rather than the MSCI EAFE due to the broader range of investment opportunities.

The New International Investment Options

As a result of an intensive Request For Proposals (RFP) process, the Board chose 3 new international investment managers. The goal was to select funds with competitive performance, that are easy to understand and with reasonable fees.

As a result, the Plan selected the following International Investment Managers:

- For the **International Passive Fund**, the **Fidelity Global ex U.S. Index Fund (FSGGX)** was selected. This is a mutual fund that will manage the NYSDCP International Equity Index Portfolio.
- For the **International Active Fund**, the **Principal Diversified International Fund** was selected. This is a CIT that will manage the NYSDCP International Equity Active Portfolio.
- **The Fidelity International Capital Appreciation Fund (FAPCX)** was selected. This is a mutual fund and a new offering in the Plan. This is an international opportunistic growth option for participants looking for a bias toward growth but with potentially more volatility.

Below is more detailed information on each of these funds.

Index International Fund – Fidelity Global ex-US Index Fund. This fund generally invests in securities included in the MSCI ACWI ex U.S. (All Country World Index excluding the United States). To replicate the returns of the MSCI ACWI ex U.S./ index, the fund purchases most of the larger capitalization stocks in the index but also uses statistical sampling techniques for smaller parts of the index based on factors such as capitalization, industry exposure, dividend yield, price/earnings ratio, price/book ratio, earnings growth, country weighting, and the effect of foreign taxes.

Active Core International Fund – Principal Diversified International Equity Fund. This fund has been co-managed by Paul Blankenhagen and Juliet Cohn for the past 18 years. They invest in international developed markets and emerging markets, among large, mid and smaller sized companies. They are considered a core manager, investing in value, blend and growth stocks. It is most similar to the current NYSDCP International Active Fund. Currently, the fund invests in 125 to 200 companies across more than 25 countries. Exposure is balanced between growth and value companies with a tilt to high-quality companies. Bottom-up stock selection drives the investment strategy with stock selection being the driver of performance.

Opportunistic Growth International Fund – Fidelity International Capital Appreciation Fund (K6 shares). This fund was started in 2008 by Sammy Simnegar, the current portfolio manager. This fund is large cap growth oriented; it holds between 75 to 150 individual stocks; is benchmarked to the MSCI ACWI ex U.S. index; and has a focus on the technology sector and the industrial sector.

Transitioning from Current Separate Accounts to the New Investment Options

In transitioning from the separate account structure to individual investment options, we have to ensure that participants will receive trailing dividends and the monetary benefit of international tax reclaims, which are associated with the separate account structure currently in place. Therefore, we will need to maintain the separate account structure for some time. What is different from what is currently in place is that the Principal Diversified International CIT will be the only manager for the NYSDCP International Active Fund as opposed to the four that are in place currently, and the Fidelity Global ex U.S. Index Fund will be the only manager in the NYSDCP International Passive Fund.

Once the trailing dividends and tax reclaims are received, the result will be that we will offer the Principal Diversified International CIT and the Fidelity Global ex U.S. Index Fund as distinct investment options in the Plan. When this happens, we will close the NYSDCP International Active Fund and map any assets you may have in that fund to the Principal Diversified International CIT. The same thing will happen with the NYSDCP International Passive Fund and any assets you may have in that fund will be transferred directly to the Fidelity Global ex U.S. Index Fund.

When will this occur?

The change in investment managers will occur by June 13, 2022. The fund mapping for the International Passive fund will occur in the coming weeks or months. The fund mapping for the International Active fund will occur in the next several months. Check nysdcp.com for updates.

What do I need to do?

Unless you would like to make other changes to other funds in the Plan's investment line-up, **you do not need to do anything at this time**. If you want more information, please contact the AE Connect Line at **1-844-867-8197** to speak with an Account Executive.

Investing involves risk, including possible loss of principal. International investing involves additional risks, including currency fluctuations, political instability, and foreign regulations.

Prospectuses and fact sheets are available at www.nysdcp.com or upon request at 1-800-422-8463. If you decide to direct investment of your contributions to any fund in the future, please read each prospectus carefully for more information, including investment objectives, management fees, and other charges and expenses.

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