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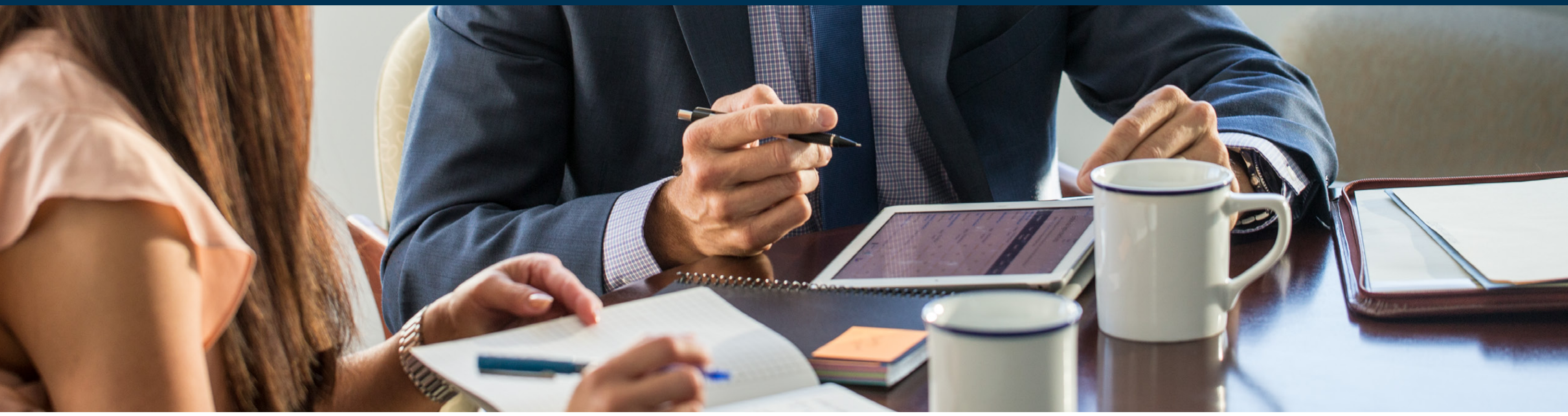
Quarterly

HELPLINE: 1-800-422-8463 TTY/TDD: 1-800-514-2447 WEB: nysdcp.com

New York State
Deferred Compensation Plan
A Plan for Your Future



Dear Participants,

Some positive Plan updates are on the way!

We are finalizing some changes to the lineup of investment options available to you under the Plan. As Board members of the New York State Deferred Compensation Plan, we understand how important your retirement assets are to you. We take our roles as Board members seriously and regularly monitor and evaluate the investment options we make available to you in the Plan. Part of that work involves understanding what it is our participants want and need to make effective investment choices. We expect these changes will make it easier for you to decide how to invest your account balances. The changes are also a part of our continuing efforts at reducing Plan costs.

Why are we changing the lineup?

Many of the Plan's investment option contracts are expiring in 2017. In preparation, beginning in late 2015 and extending through most of 2016, our staff and investment consultant re-evaluated the Plan's investment structure. Our focus was on re-assessing the menu of options—both the number and types of options—as well as offering lower cost investments, when available.

The Board's rules require us to conduct a competitive bid process to make sure we are selecting investment options that offer the best value for Plan participants. Requests for Proposals were issued and evaluated, finalists were interviewed, and financial organizations were recommended to provide the various investment options in the Plan. We worked closely with external financial and legal experts to make sure our process was broad and rigorous. Changes were made when cost savings to participants were compelling.

The result will be an easier to use and lower cost lineup for you.

What will remain the same in the new lineup?

Many important aspects of the lineup that you count on will not change:

- **Several of the current investment options will continue to be offered** and, where available, in a lower cost structure.
- If you don't want to make asset allocation decisions for your account, **our new lineup will continue to offer you the option of selecting target retirement date funds and balanced funds**.
- **Our core lineup will have actively managed and indexed investment options** in most of the major asset classes.
- We will **continue to offer the Stable Income Fund and the International Passive and Active Equity Funds.**
- **If you actively manage your account, our new lineup will continue to allow you to select from a range of equity and fixed income investment options.** If you want even more choices, you will still have a "mutual fund window" to choose from a very broad range of mutual funds and Exchange Traded Funds (ETFs).
- **Our Web site will be updated with changes** and our HELPLINE and Account Executives will continue to assist you.

What will be different?

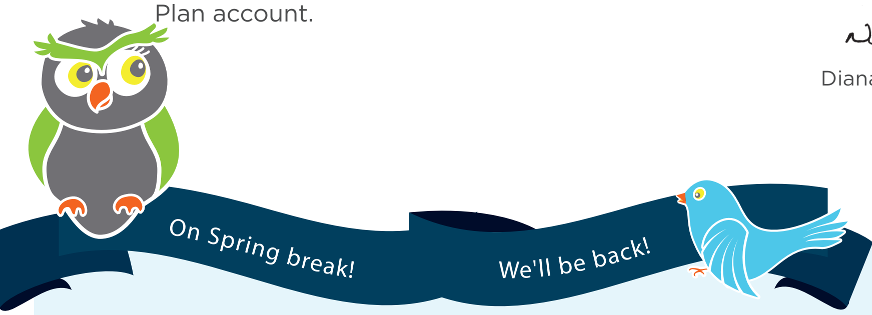
- **We will be moving some of the investment options from "mutual funds" to "collective investment trusts."** The differences between mutual funds and collective trusts are discussed later in this newsletter. The main reason for this change is to lower fees.
- **We will be replacing some financial organizations** that currently have investment options in the Plan.
- **We will be changing the way we present the investment lineup on our Web site,** through the HELPLINE and in our written materials. The change will allow you to better identify investment choices based on how you like to manage your Plan account.

What's next?

There is nothing you need to do at the moment. In early June, we will be sending you a Supplemental Newsletter describing all of the changes and what action you might wish to take at that time. Around that time, we will also have updated information available on our Web site at nysdcp.com and through the HELPLINE. We expect the lineup changes to take effect in early July of this year.

We are excited about the enhancements being made to the Plan and look forward to communicating with you further.

Diana Jones Ritter | Blake G. Washington | David J. Natoli



Asset Allocation — the Bigger Picture and the Smaller Picture

Asset allocation can be thought of in different ways. If you use retirement date funds or a balanced fund, you don't have to spend much time thinking about it, since asset allocation is handled by the fund managers. If you manage your account by choosing from the "Do it Myself" and Specialty Options, it is helpful for you to have a framework to use as a starting point for your asset allocation decisions. Please note, using asset allocation as part of an overall strategy does not assure a profit or guarantee against loss in a declining market.

Asset allocation has two forms—the big picture and the smaller picture.

What is the Big Picture?

This is how you allocate your account amongst these three broad categories:

Cash and Cash Equivalents—These investments provide lower expected returns than the other two categories, but do so at low levels of risk to principal. The very risk-averse participant will focus on this type of investment and use it as a "parking spot" until further decisions are made.

Fixed Income (Bonds)—The Plan offers bond funds to provide fixed income exposure. These funds have more risk, but provide for greater potential returns than cash investments. Bond funds vary in risk depending on how short- or long-term the maturities and credit-worthiness of the bonds in which the portfolios invest.

Stocks (Equities)— The Plan offers a number of investment options that concentrate on stock market investments. Stocks are the riskiest of these three categories in general and vary widely in risk depending on the investment strategies used. The potential reward is higher than the other categories, but achieving these higher returns may require long holding periods. Broadly, investment options vary by investment style ("growth" or "value") and by company size. The types offered by the Plan include:

U.S. Large Cap Domestic—These are the largest companies in the U.S. stock market, usually defined as those with $5 billion or greater in market capitalization. The most quoted domestic indexes like the S&P 500 for example, are heavily weighted in these stocks. Investment managers use a number of different strategies, including value and growth styles of investing, to differentiate the ways in which they participate in these markets.

SMID ("Small-to-Mid")/Small Cap Domestic Equity — This category represents the rest of the companies in the U.S. stock market. SMID stocks are used to "complete" your U.S. stock exposure. These companies are typically smaller in size but are often faster growing than large capitalization equities. As such, they are generally riskier than larger, mature companies. Most investment managers offer funds that are a blend of market caps rather than just mid or small cap.

International—These are the equity securities of companies headquartered in developed countries outside the U.S. Many of the products and services you use every day are made in other countries. There are additional risks and opportunities with these securities, such as those associated with currency fluctuations and geo-political risks. Equity securities that are issued by companies headquartered outside of the U.S. in less developed countries are referred to as "emerging market" securities. Securities of emerging market companies involve even greater risks than those issued by companies in developed markets.

So, what is the Smaller Picture?

The smaller picture is how you pick and choose among the individual options within each slice of the big picture. An example of a "small picture" decision is how you might select the funds in the large cap equity category. Fund or manager selection is important and can affect the return on your investment, but it is difficult to make good small picture decisions until you have a firm grasp on the big picture.

What to know...

The potential returns and risks of your Plan account are greatly determined by how you allocate your funds from the big picture perspective. Historically, the big picture decisions have more to do with the performance and risk of your Plan account, although many participants tend to focus on the small picture—the individual investment options themselves.

Types of Investment Options Available in the Plan:

The differences between mutual funds, collective investment trusts and custom funds

As noted earlier, we will be introducing a new investment lineup for the Plan. The investment options in the new lineup will consist of a mix of mutual funds, collective investment trusts (commonly referred to as CITs) and custom funds. This article highlights some of the key differences between these three types of investment options.

Mutual Funds

A mutual fund is a collective vehicle through which multiple investors hold a diverse portfolio of securities, with each investor owning shares in the mutual fund itself.

- **A mutual fund is registered with, and is regulated by the Securities and Exchange Commission (SEC).** As a result, each registered mutual fund is required to have a prospectus describing how it operates and what it can invest in.
- **Mutual funds are overseen by an independent board of directors.** Material changes to a mutual fund's operations must typically be approved by this independent board, and in some cases by the SEC and the fund's shareholders.
- **Investors in mutual funds own shares in the mutual fund** but generally have no direct interest in the underlying investments made by the fund.
- **Mutual funds can have multiple share classes that vary by both (i) the fees and expenses charged to investors and (ii) the persons who are allowed to invest in the share class.** Mutual fund share classes that are limited to plans and other institutional investors typically have lower fees than share classes available to retail investors.
- **Mutual funds have ticker symbols** (specific five-letter abbreviations that identify each mutual fund), so you can easily research a fund's performance online or in a newspaper.

Collective Investment Trusts

Like mutual funds, CITs are collective investment vehicles through which multiple investors invest collectively in securities. In some cases, CITs are managed to replicate the holdings of mutual funds also offered by the same financial organizations. But there are some key differences:

- CITs are managed by a bank or a trust company and are regulated by the Office of the Comptroller of the Currency, a federal agency that regulates national banks or, for state-chartered trust companies, by the comparable state regulator. **CITs are not regulated by the SEC.**
- **CITs are not required to have an independent board overseeing their operations**, and while the bank or trust company operating the CIT owes a fiduciary duty to its investors, the bank or trust company will have more flexibility than the manager of a mutual fund in restricting withdrawals and redemptions.
- **Only retirement plans are allowed to invest in CITs.** CITs do not have retail investors (i.e., individual investors who come in to the CIT other than through a retirement plan).
- **A CIT does not have a prospectus.** Information about the CIT is typically limited to a "fund fact sheet" reviewed by the CIT sponsor and available to you from the Plan. Although a CIT has detailed plan and trust documents, these documents are not routinely made available to Plan participants.
- **A CIT does not have a trading symbol.** Performance information about a CIT will generally be available only through information provided to you by the Plan.
- **CITs may have lower expense fees and charges than a comparable mutual fund,** in part because they do not have retail investors and are not subject to the regulatory requirements applicable to mutual funds.

Custom Funds

A custom fund is an investment option that is available only to the participants of the retirement plan in which it is offered. Three of the investment options currently in the Plan, and that will continue in the new lineup, are custom funds: the Stable Income Fund, the International Active Fund and the International Passive Fund.

There are some key differences between custom funds, on the one hand, and mutual funds and CITs, on the other:

- Although the underlying managers selected by a custom fund will typically be regulated by the SEC, the custom fund itself is not registered with the SEC or Office of the Comptroller of the Currency**.** **A custom fund is overseen by the fiduciaries (in our case, the Board) of the plan that offers the fund.** Our Board approves the investment guidelines for the custom funds offered by our Plan.
- **Only our Plan participants are allowed to invest in the custom funds** we offer through the Plan.
- **A custom fund does not have a prospectus.** Information about the custom fund is typically limited to a "fund fact sheet" distributed by the Plan.
- **A custom fund does not have a trading symbol.** Performance information about a custom fund will generally be available only through information provided to you by the Plan.
- **Custom funds typically have negotiated fee arrangements with the underlying managers of the fund.** These arrangements typically result in lower fees for participants than those charged to investors in the retail share class of a mutual fund.
- **Custom funds allow the Plan to offer participants diversified exposure to separate underlying fund managers via a single investment option.** For instance, the International Active Fund has four underlying investment managers that each actively manage a portion of the Fund.

Stay tuned! In our upcoming Supplemental Newsletter, we will give you more information about all of the Plan's investment options and indicate whether these options are mutual funds, CITs or custom funds.

QUESTIONS?

Call the HELPLINE or your Account Executive for help at 1-800-422-8463.

Participants in the New York State Deferred Compensation Plan will be charged administrative fees for the Plan year beginning April 1, 2017 and ending March 31, 2018. Each participant account is charged a $20 annual fee, assessed in two $10 semi-annual installments in April and October. In addition, an asset-based fee determined by the Board will be assessed to participants with a balance greater than $20,000. The asset-based fee will not be assessed on assets in excess of $200,000. The semiannual asset-based fee assessed in April 2016 was 0.020%. It is anticipated that the semi-annual asset-based fee to be assessed in October 2016 will be 0.020%.

Each of the mutual funds offered by the Plan has fund expenses that are netted directly from the mutual fund's daily price. These will vary based upon the investment fund selected.

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