



**MINUTES
PUBLIC MEETING
February 23, 2023
9:00 a.m.
IGCS – Wabash Hall, Room 1**

I. Call to Order/Roll Call

State Auditor Tera Klutz called the meeting to order at 9:00 a.m. Committee members present were Mike Frick (Appointee, Treasurer of State), Joseph Habig (Appointee, Governor), Nancy Marsh (Appointee, Board of Finance), and Deanna Oware (Appointee, Board of Finance). Kim Diller, Courtney Schaafsma, Emily Boesen, Britton Stucker, and Mark Hawkins (Legislative Affairs) (Auditor of State); Mike Paton (Barnes & Thornburg, Counsel to the Committee and the Administrator); Kevin Mitchell, Michael Burkhart, and Mike Studebaker (via video conference) (Nationwide, Third-Party Administrator to the Plans); Jami Cheneski, Michael Andeberhan, and Nicholas Glynn (State Street Global Advisors); and Tiffany Spudich and Susan Somers (Capital Cities, L.L.C., Investment Consultant to the Committee) were also present.

II. Live-Streaming Disclaimer

The meeting was live streamed. Ms. Somers, of Capital Cities, provided the live-streaming disclaimer.

III. Approval of the Previous Minutes

State Auditor Tera Klutz asked for a motion to approve the minutes from the November 17, 2022 meeting. **Mr. Frick moved to approve the minutes. Ms. Marsh seconded. The minutes were unanimously approved.** State Auditor Tera Klutz also asked for a motion to approve the minutes from the December 14, 2022 meeting. **Mr. Frick moved to approve the minutes. Ms. Marsh seconded. The minutes were unanimously approved.**

IV. Administrator's Report

State Auditor Klutz informed the Committee that an Annual Report is required for the State Board of Finance. Capital Cities' Performance & Evaluation Report, for period ended December 31, 2022, will be utilized. Audited financials are also available.

V. Third Party Administrator's Report

Mr. Mitchell, of Nationwide, discussed Nationwide's participant education plan. Nationwide normally

holds webinars on Wednesdays and an average of 50 participants have attended each webinar. Nationwide's campaigns in March will focus on increasing online access and reviewing beneficiary information. In May, Nationwide will hold an in-person educational session. Mr. Mitchell also reported four new plan adoptions, with 40 enrollments and four additional prospects in various stages of adoption.

Mr. Burkhart, of Nationwide, presented a review of Nationwide's quarterly report. Mr. Burkhart highlighted that assets at the end of the fourth quarter were \$1,629,064,385. Distributions were higher in the fourth quarter due to required minimum distributions. Mr. Burkhart reported that 22% of participants have signed up for an online account and 11% of participants are utilizing My Interactive Retirement Planner. Mr. Burkhart also noted that the ProAccount managed platform represents 32% of the total assets. Mr. Burkhart stated that Roth assets are higher than peers.

Mr. Burkhart discussed SECURE 2.0, noting that the required minimum distribution age has increased from 72 to 73 years old. In addition, Mr. Burkhart noted that Nationwide will continue to implement SECURE 2.0 provisions according to the required implementation dates.

VI. Manager Presentation

State Street Global Advisors serves as the Plans' Target Date Fund manager. In addition, State Street is the investment manager for the S&P 500 Index Fund, Russell Small-Mid Cap Index Fund, and Inflation Protected Bond Index Fund that is offered in the Plans. Jami Cheneski, of State Street Global Advisors, provided an update on the firm to Committee.

State Auditor Tera Klutz asked State Street to highlight their investment stewardship, corporate engagement, and proxy voting policies, along with efforts to maximize shareholder value. Michael Andeberhan, of State Street Global Advisors, discussed State Street's approach to overseeing long-term risks and opportunities. As detailed in State Street's presentation: Thought Leadership—State Street leverages their engagements and position to publish insight pieces, issue guidance on voting policies and inform research efforts. Engagements—The firm undertakes targeted campaigns on thematic priorities and have ongoing engagements with material risks and opportunities. Voting—State Street votes on management proposals and against directors as needed to hold management accountable and prioritize value creation.

In 2023, State Street will offer a new program, Investor Choice, which allows investors to make choices regarding how shares held in the State Street funds and separately managed accounts they own are voted. Guidelines are provided by ISS; however, the Plan or investor can vote proxies within the guardrails.

As requested by State Auditor Klutz, State Street will provide additional information to the Committee following the meeting, including ISS' policies for public funds, along with information regarding how State Street defines ESG, and historical performance information for ESG integration.

VII. Investment Consultant's Report

Annual Market Review

Ms. Somers began the meeting by discussing the broad economy. She highlighted the challenging 2022 market performance, given inflation, rising interest rates and geopolitical headwinds. She noted the double-digit negative returns across all asset classes, except for Cash. Ms. Somers discussed that the Federal Reserve engaged in monetary tightening to combat historically high inflation in 2022. The Fed raised the Federal Funds Rate seven different times in 2022, increasing the Rate from 0.00% to 4.25%. She also noted the balancing act of seeking a "soft landing" which is raising rates just enough to stop the economy from

overheating (high inflation), without entering a recession. Ms. Somers highlighted some positive themes heading into 2023, including wage inflation, higher expected returns, and fixed income yields. She also discussed some potential headwinds for 2023, including geopolitical concerns, corporate earnings, housing costs, and savings depletion.

Ms. Spudich noted that Capital Cities continues to recommend diversification to weather periods of market volatility. In particular, the Plans offer participants an appropriate and diversified menu of investment options. In addition, Ms. Spudich highlighted the 2023 Fiduciary Calendar for the Plans and Capital Cities' proposed projects for each quarter.

4Q22 Performance & Evaluation Report

Capital Cities presented the Considerations/Observations' pages of the 4Q22 Performance & Evaluation Report. Ms. Spudich informed the Committee that the Broad Agency Announcements were issued for the Passive Investment search at the end of January. Responses are due March 22nd and search findings will be presented at the May 11th Committee meeting. Ms. Spudich also noted that the T. Rowe Price Blue Chip Growth Fund was placed on Watchlist status for short- and long-term performance during the November Committee meeting.

Ms. Spudich reminded the Committee that Scott Mather, Managing Director and Portfolio Manager on the Total Return strategy, announced a personal leave of absence on October 3, 2022. PIMCO announced in December that Mather would retire at the end of the year. Capital Cities will continue to monitor personnel; however, the Strategy's Qualitative stoplight remains green given the multi-portfolio manager approach and experienced team.

Ms. Spudich highlighted that Capital Cities recently contracted with InvestmentMetrics to utilize their performance reporting software solutions. The Performance & Evaluation Report has been produced from InvestmentMetrics PARis software.

Turning to the Plan Summary Page, a summary qualitative and quantitative review ("stoplight grid") of each of the investment options was provided to the Committee. All the investment options are in good/excellent standing, per the Investment Policy Statement guidelines, except T. Rowe Price Blue Chip Growth.

Ms. Spudich highlighted that the total Plans' assets stood at \$1,629,064,385, as of December 31, 2022, with 20% of the assets in the Plans' default option, the State Street Target Retirement Funds, and the remaining 80% in the Plans' individual options that allow participants to build their own diversified portfolio. Ms. Spudich detailed the State Street Target Retirement Funds returned between 4.2% (Retirement Income Fund) and 9.1% (2065 Fund) for the quarter.

2022 Annual Report

Capital Cities prepared an Annual Report for the State Board of Finance. The Report provides comprehensive information regarding each investment option that is offered in the Plans. The Plans' fees are also detailed in the Annual Report. **Mr. Frick moved to approve the Annual Report. Ms. Oware seconded. The Annual Report was unanimously approved.**

T. Rowe Price Blue Chip Growth Watchlist

Ms. Somers discussed the Watchlist Memo for the T. Rowe Price Blue Chip Growth Fund. Ms. Somers stated that the Blue Chip Growth Fund serves as the active Large Cap Growth investment option for the

Plans. As of December 31, 2022, the Fund accounted for approximately \$103 million in total assets within the Plans (6% of the consolidated Plans). Ms. Somers stated that the Fund has displayed short- and long-term underperformance (last three- and five-year time periods). Security selection within a handful of stocks since 2019, particularly within the information technology and consumer discretionary sectors, has weighed on the Strategy's relative performance. The T. Rowe Price Blue Chip Growth Fund remains a solid Large Cap Growth Strategy with a consistent process and deep team. Capital Cities will continue to monitor the Fund over the next four to six quarters and will be looking for improved performance relative to the benchmark and peer group. At the end of the Watchlist period, Capital Cities will recommend to either retain or replace the Fund.

Self-Directed Brokerage Account Education

Ms. Spudich provided a Self-Directed Brokerage Account Education presentation. Ms. Spudich highlighted the current investment menu and indicated that an additional investment tier, a Self-Directed Brokerage Account window, could be considered. Self-Directed Brokerage Accounts are designed for investment-savvy participants who are looking to invest outside of a Plan's investment menu.

Ms. Spudich reported that utilization of Self-Directed Brokerage Accounts is generally heavily influenced by participant demographics and investment knowledge. She also discussed that the benefits and considerations of offering a Self-Directed Brokerage Account should be carefully weighed. In addition, Ms. Spudich noted the fees associated with a Self-Directed Brokerage Account, which would be accessed through the Schwab Personal Choice Retirement Account on Nationwide's platform.

The Committee expressed an interest to learn more about Self-Directed Brokerage Accounts. Capital Cities and Nationwide will prepare an additional educational presentation for the next Committee meeting.

VIII. Legal Update

None.

IX. Old Business

None.

X. New Business

None.

XI. Adjournment

With no further business before the Committee, the meeting was adjourned at 10:36 a.m. **Mr. Frick motioned for adjournment. Mr. Habig seconded the motion.** The next quarterly meeting is scheduled for Thursday, May 11, 2023, at 9:00 a.m.