



**MINUTES
PUBLIC MEETING
August 12, 2021
9:00 a.m.
IGCS – Rooms 1 and 2**

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), Nancy Marsh (Appointee, Board of Finance), and Deanna Oware (Appointee, Board of Finance). Staci Schneider (Chief of Staff to the Auditor of State); Mike Paton (Barnes & Thornburg, Counsel to the Committee and the Administrator); Ann Mahrtd (Empower Retirement, Third-Party Administrator to the Plans); 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 May 13, 2021 meeting. **Mr. Frick moved to approve the minutes. Ms. Oware seconded. The minutes were unanimously approved.** State Auditor Tera Klutz asked for a motion to approve the minutes from the June 11, 2021 meeting. **Mr. Frick moved to approve the minutes. Ms. Oware seconded. The minutes were unanimously approved.**

IV. Administrator's Report

Ms. Schneider provided an update on the Third-Party Administrator Request for Proposal process. Nationwide was unanimously approved as the new Third-Party Administrator for the State of Indiana Public Employees' 457(b) and 401(a) Plans during the June 11, 2021 meeting. A kickoff meeting was held with Nationwide's transition manager, along with education and technology contacts, on August 5, 2021. Ms. Schneider indicated that contract discussions are in process and revisions may be required to Plan documents.

Ms. Schneider also highlighted recent participant outreach efforts and webinar participation. Ms. Schneider noted that the August webinar was the largest registration to-date with 500 participants registered for the event.

V. Investment Consultant's Report

2Q21 Performance & Evaluation Report

Ms. Spudich presented the second quarter market review. Ms. Spudich noted that the equity markets continued their rally during the quarter, given expansion of the vaccine roll-outs, reopening economies, pent-up demand and continued monetary and fiscal stimulus. In equity markets, all styles generated positive returns, while Growth stocks outpaced Value stocks and Large Cap outperformed Small Cap. Large Cap Growth (+12%) was the strongest performing style during the quarter. International stocks generated smaller, yet still positive results within Developed and Emerging Markets. Over the one-year period, all equity styles are displaying extremely positive returns. Turning to fixed income, interest rates declined allowing positive returns across all styles. The Bloomberg Aggregate Bond Index (+1.8%) rebounded from a rough first quarter. Fixed income styles are now showing mixed results over the last one-year period.

Ms. Spudich presented the 2Q21 Performance & Evaluation Report to the Committee. Ms. Spudich discussed T. Rowe Price Blue Chip Growth, as part of the Report review. As previously reported to the Committee, the T. Rowe Price Blue Chip Growth Fund's last three-year performance has fallen to the bottom quartile of peers, trailing the Russell 1000 Growth Index. Capital Cities conducted a due diligence call with T. Rowe Price on May 26th. Short-term underperformance is mainly due to stock selection, particularly Tesla (not owning), Apple (underweight position), and Alibaba (non-benchmark position). Long-term performance (last five-year time period) ranks favorably. Capital Cities also continues to monitor the Strategy's personnel. As previously discussed, Larry Puglia, the lead portfolio manager of the T. Rowe Price Blue Chip Growth Fund, intends to retire from the firm at the end of 2021. Effective October 1, 2021, Paul Greene, currently the associate portfolio manager of the Strategy, will succeed Puglia. Capital Cities will continue to monitor the Strategy's performance and personnel.

Ms. Somers highlighted that the total Plan assets stood at \$1,848,125,240, as of June 30, 2021. A summary qualitative and quantitative review ("stoplight grid") of each of the investment options was also provided to the Committee. All of the investment options are in good/excellent standing, with the exception of Fidelity Low-Priced Stock, Vanguard Capital Opportunity and T. Rowe Price Blue Chip Growth. Capital Cities will continue monitoring Vanguard Capital Opportunity and Fidelity Low-Priced Stock performance.

Investment Policy Statement

Ms. Somers presented a review of the Plan's Investment Policy Statement (IPS). The Securities Guidelines' section of the IPS was amended to reflect the enhancements to the Indiana Stable Value Fund's construction. The IPS Appendices were also updated as part of the review. State Auditor Tera Klutz asked for a motion to adopt the Investment Policy Statement. **Ms. Oware moved to approve. Mr. Frick seconded. The Investment Policy Statement was unanimously adopted.**

Annual Fee Analysis

Ms. Spudich provided a presentation to assist the Committee in reviewing the Plans' investment management, recordkeeper, administrative and consultant fees. The Fee Analysis documented the close monitoring and benchmarking of the Plans' fees. Ms. Spudich noted that the Plans' investment management fees are competitively priced relative to peers. However, alternative share classes exist for Fidelity Low Priced-Stock, Fidelity Diversified International and American Funds EuroPacific Growth. Fidelity Low-Priced Stock's K6 share class is currently less expensive on a net cost basis; however, the average expense ratio of the Retail share class, that is offered in the Plans, has been cheaper over the last four calendar years. Capital Cities has also seen slight fee changes among the American Funds EuroPacific

Growth share classes over time. As a result, Capital Cities did not recommend share class changes for Fidelity Low-Priced Stock and American Funds EuroPacific Growth. However, Capital Cities recommended transitioning from Fidelity Diversified International's Retail share class to the K6 share class given the historical share classes' expenses. **Ms. Marsh motioned to transition from Fidelity Diversified International Retail share class to Fidelity Diversified International K6 share class. Mr. Frick seconded. The share class exchange was unanimously approved.**

Ms. Spudich explained that Nationwide charges one basis point for administering custom, white-label funds. The State of Indiana Inflation-Linked Bond Fund, which is a current white-labeled Fund in the Plans, is solely comprised of the State Street U.S. Inflation-Protected Bond Index. Capital Cities recommended eliminating the white-label structure of the State Street U.S. Inflation-Protected Bond Index so that a one basis point fee would not be charged. **Mr. Frick motioned to remove the white-label structure. Ms. Oware seconded. The elimination of the white-label structure was unanimously approved.**

Ms. Spudich also explained that the Plans' recordkeeper/administrative fees are transparent and equitable for participants. Recordkeeper fees were last benchmarked during the Third-Party Administrator Request for Proposal process that occurred in late 2020. Ms. Spudich noted that the annual recordkeeper expense will be reduced from \$54.80/participant to \$48/participant once the Plans transition from Empower to Nationwide.

In addition, there was a discussion about Managed Account Services' fees. The Managed Account Services' fees will remain the same for participant balances of less than \$100,000 when assets transfer to Nationwide; however, the fees will increase for account balances greater than \$100,000. Nationwide's expenses will be clearly stated in the Transition and Managed Account Services' brochures, along with being highlighted during the participant workshops. Participants will also be given a 90-day free trial of the ProAccount service, before a fee is charged.

Finally, the Committee reviewed the \$3/participant administrative fee that covers the Plans' expenses, including personnel, legal, audit and investment consultant expenses. There was further discussion regarding investment consultant expenses, which was benchmarked and negotiated as part of the 2020 Investment Consultant Request for Proposal process.

VI. Old Business

None.

VII. New Business

None.

VIII. Adjournment

There being no further business before the Committee, the meeting was adjourned at 9:45 a.m. **Mr. Frick motioned for adjournment. Ms. Oware seconded the motion.** The next quarterly meeting is scheduled for Thursday, November 18, 2021 at 9:00 a.m.