



**MINUTES
PUBLIC MEETING
February 20, 2015
10:00 am
IGCS Conference Room 14**

I. Call to Order/Roll Call

State Auditor Suzanne Crouch called the meeting to order at 10:00 a.m. Other Committee members present were Lisa Acobert, IDOE; Zac Jackson, SBA; and, Micah Vincent, OMB. Also present were Erin Sheridan, Deputy Auditor of State and Maggie Johnson with the Auditor of State's Office; Jaimie Beisel with Great-West Financial (Third Party Administrator to the Plan); Mike Paton of Barnes & Thornburg (Counsel to the Committee and the Administrator); and, Tiffany Spudich, Amanda Black, and Tarek Zeni with Capital Cities, L.L.C. (Investment Consultants to the Committee).

II. Reading of the Minutes

Auditor Crouch asked for a motion to approve the minutes from the November 14, 2014 meeting. Mr. Vincent moved to approve the minutes. Ms. Acobert seconded. The minutes were approved unanimously.

III. Administrators Report

Auditor Crouch indicated that the Auditor's Office has continued researching ways to live-stream and post Deferred Compensation Committee meetings to the Hoosier S.T.A.R.T. website in the future. The Committee will be testing live-streaming during the next meeting.

IV. Investment Consultant Report

Market Review

Ms. Spudich highlighted that the market environment in 2014 was marked by a strengthening US economy and dollar, global monetary easing, geopolitical concerns, and a race to the bottom for oil. Around the world, the economies and financial markets of the European Union, Japan, and emerging markets detracted from performance. Overall, the domestic financial and economic environments were encouraging. Looking ahead, global growth, company earnings, interest rates, and volatility are key concerns. Themes that drove 2014 investment returns included: 1) US economy and job creation; 2) higher corporate earnings and healthy balance sheets; and, 3) global monetary policy.

Ms. Spudich discussed that US equity returns significantly exceeded those of other developed countries

and emerging markets in 2014, with the S&P 500 (domestic large cap stocks) posting a +13.7% return and the MSCI EAFE (developed foreign equities) delivering a -4.90% return. Ms. Spudich also highlighted that the long-term returns of stocks for the five and ten year periods have been robust. Over fifteen years, US equity returns have been positive but generally lower than fixed income. Ms. Spudich explained that as the US yield curve flattened and long-term interest rates declined in 2014, the Barclays Aggregate Bond Index posted a solid return of 5.97%.

Ms. Spudich believes the investment environment could be more challenging going forward. As such, the principles of sound portfolio construction and diversification remain paramount. Ms. Spudich discussed that Hoosier S.T.A.R.T. offers a comprehensive investment menu and that the Committee has been proactive in the design and offerings within Hoosier S.T.A.R.T. In particular, Ms. Spudich noted that the custom target date funds were redesigned in 2013 to provide increased diversification, less exposure to interest rate risk, and increased downside protection.

Lastly, Ms. Spudich presented a timeline of custom projects Capital Cities will be delivering throughout the year, in addition to the quarterly performance and evaluation reports, to assist the Committee in fulfilling their fiduciary duties, including: fee analysis, manager due diligence/manager searches, investment structure review, target date fund portfolio construction review, and Investment Policy Statement review.

Manager Updates

PIMCO Total Return/Unconstrained Bond Watchlist Updates & Manager Searches

The PIMCO Total Return and Unconstrained Bond Funds were placed on Watchlist status in February of 2014 by the Committee. The PIMCO Unconstrained Bond Fund serves as an underlying component of the Indiana Flexible Bond Fund, while the PIMCO Total Return Fund is offered to participants on a stand-alone basis. Ms. Black provided a review of the situation. It was discussed that in January of 2014, Co-CIO Mohamed El-Erian announced his departure from the firm, creating a domino effect of organizational changes, warranting Watchlist. Bill Gross, Founder and Managing Director of PIMCO, submitted his resignation on September 26th. He immediately left the firm and accepted a position at Janus Capital. Ms. Black also noted that on January 12, 2015, a key Portfolio Manager of the PIMCO Unconstrained Bond Fund, Saumil Parikh, announced his resignation. Despite the personnel departures, PIMCO continues to be well-resourced with highly regarded investment professionals. In fact, PIMCO hired 28 investment professionals on a net cost basis in 2014. Ms. Black also explained that firm asset outflows have continued; however, the firm remains substantially large with \$1.68 trillion in assets under management.

As a result of these events, contingency public Core/Core Plus and Unconstrained Fixed Income searches were conducted and presented by Ms. Black. After extensive discussion by the Committee, it was decided that a special meeting would be held in March with PIMCO in attendance. This will allow the Committee to conduct further due diligence by having PIMCO address the organizational changes that have occurred. In the meantime, the PIMCO Funds will continue to be closely monitored on Watchlist status.

Neuberger Berman Global Thematic Opportunities Watchlist Update & Manager Search

Mr. Zeni discussed that the Neuberger Berman Global Thematic Opportunities Fund was placed on

Watchlist status in August of 2014 given short-term performance (last three-year time period). The Neuberger Berman Global Thematic Opportunities Fund serves as an underlying component of the custom Target Date Funds and is not offered to participants on a stand-alone basis. The Fund's short-term performance has trailed the median peer performance and its benchmark. Underperformance has largely occurred from the Fund's emerging markets exposure, allocations to inflation-related strategies (e.g., gold), and cash holdings. As a result of the recent underperformance, the Fund has experienced asset outflows. Most recently, the assets dropped just below \$250 million within the Strategy. Mr. Zeni explained that these factors combined prompted Capital Cities to recommend replacing Neuberger Berman within the custom Target Date Funds.

Capital Cities issued a public, contingency global unconstrained equity search in November of 2014 to explore and contrast other global opportunistic managers in the marketplace. Mr. Zeni walked through the findings of the search. After a thorough discussion by the committee, Auditor Crouch asked for a motion to select the Mainstay Epoch Global Equity Shareholder Yield Strategy to replace Neuberger Berman. Mr. Jackson moved to approve Epoch. Mr. Vincent seconded. The Committee specifically preferred the opportunity to reduce fees with Epoch and the potential to provide more downside protection given Epoch's philosophy/process.

Indiana Stable Value Update & Fee Analysis

Ms. Spudich discussed that Capital Cities prepared a presentation in order to assist the Committee in reviewing the Indiana Stable Value Fund's construction and the Plans' fees. Over the last quarter, Capital Cities thoroughly evaluated the wrap agreements and fees of the Indiana Stable Value Fund with Logan Circle (Global Wrap Manager) and its legal counsel. It does not appear the Indiana Stable Value Fund's construction or wrap provider arrangements should be altered at this time given the favorable fees and services being received. In reviewing best practices and the trend of many off-the-shelf stable value managers, Ms. Spudich stated that the Indiana Stable Value Fund's fee will be updated to reflect wrap and operating expenses. Ms. Spudich explained that the updated fee would be reflected on first quarter participant statements, along with a footnote comment noting that fees have been updated to reflect best practices in how fees are communicated and to provide full transparency. No new fees are being charged. Similarly, the custom target date funds' fees will be updated given the Indiana Stable Value Fund is an underlying component of the funds.

Ms. Spudich also discussed the overall Plans' expenses, including those related to investment management, the recordkeeper and consultant. She highlighted that each of the Plans' investment options have expense ratios that fall at or below the median of their respective peers. The Plan is also invested in the least expensive share class/vehicle of each of the Funds on a net cost basis; however, consideration could be given to a K share class of the Fidelity Low-Priced Stock and Fidelity Diversified International Funds. This topic will be readdressed at a future meeting. In addition, Ms. Spudich discussed that Hoosier S.T.A.R.T.'s recordkeeping fee is appropriate for the services provided and the Plans' demographics.

Indiana Stable Value Agreements

Ms. Spudich explained that Logan Circle, who serves as an underlying investment manager (manages 45% of the Portfolio) and the global wrap manager for the Indiana Stable Value Fund, has updated its agreement to reflect changes in operation since inception in the Plans. Transamerica (who wraps 60% of the Indiana Stable Value Fund), as part of a larger rebranding campaign, has requested an updated Administrative Services Agreement. The agreement adds no new obligations to the Contract Owner nor to the Manager, commits Transamerica to continue its administrative wrap services and contains no increase in fees. The agreements have been reviewed by Barnes & Thornburg, the legal counsel for the

Indiana State Auditor's Office. Mr. Jackson moved to approve the agreements. Ms. Acobert seconded. The agreements were approved unanimously.

V. Old Business

None.

VI. New Business

None.

VI. Adjournment

There being no further business before the Committee the meeting was adjourned at 11:50 a.m. The next meeting is May 22, 2015.