



**MINUTES
PUBLIC MEETING
November 14, 2014
9:00 am
State House Room 233**

I. Call to Order/Roll Call

State Auditor Suzanne Crouch called the meeting to order at 9:00 a.m. Other Committee members present were Mike Frick, Deputy Treasurer; Lisa Acobert, IDOE; and, Micah Vincent, OMB. Also present were Erin Sheridan, Deputy Auditor of State; Maegan Otten 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, Corey Waddell, and Joe Bill Wiley 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 August 15, 2014 meeting. Mr. Frick moved to approve the minutes. Mr. Vincent seconded. The minutes were approved unanimously.

III. Administrators Report

Auditor Crouch discussed the Fall Dinners that were aimed at promoting and increasing Hoosier S.T.A.R.T. awareness and participation among state employees, as well as, providing tools for existing members to maximize their contributions. Satellite dinners were held through-out the following cities: Henryville, Evansville, Merrillville, and Fort Wayne. Auditor Crouch indicated the workshops were very successful with a 30% increase in attendance.

Auditor Crouch also indicated that the Auditor's Office is currently researching ways to live-stream and post Deferred Compensation Committee meetings to the Hoosier S.T.A.R.T. website in the future.

IV. Investment Consultant Report

Market Review

Mr. Wiley discussed the third quarter market environment. Specifically, Mr. Wiley mentioned that volatility was reintroduced into the marketplace. Domestic equity results were mixed across capitalizations during the quarter. Growth stocks outperformed Value stocks during the period. The strongest performance occurred within Large Cap Growth stocks which returned +1.5%, outpacing all other styles of domestic equity. Small Cap stocks struggled during the period, with

Small Cap Value (-8.6%) experiencing the largest decline. Developed foreign equities (-5.9%) continued to underperform their domestic counterparts (S&P 500: +1.1%). Emerging Markets (-3.4%) also struggled during the period. Despite the mixed results, over the last one year time period, all equity styles have posted positive returns. Turning to fixed income, results also varied across styles during the third quarter. The Barclays Aggregate Bond Index returned +0.2% for the period. Municipals (+1.5%) provided the strongest returns, while Non-Dollar (-5.4%), TIPS (-2.0%) and High Yield (-1.9%) detracted sharply. Over the last one year time period, all fixed income styles, with the exception of Non-Dollar, have generated positive returns.

Recordkeeper and Manager Updates

Recordkeeper Update

Mr. Beisel discussed that Great West recently announced its new brand—Empower. Empower combines Great-West Financial, Great-West Financial Retirement Plan Services (formerly J.P. Morgan Retirement Plan Services), and Putnam Investments. Participant communication regarding the new brand is expected in January of 2015.

PIMCO Total Return/Unconstrained Bond Watchlist Update

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. Mr. Waddell 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. Since Gross' departure, PIMCO has re-hired Marc Seidner as CIO - Non-traditional Strategies and Head of Portfolio Management in the New York office. Jeremie Banet returned as Executive Vice President and Portfolio Manager for real return strategies and Michael Spence, a professor of economics at NYU Stern School of Business, returned to a consulting role.

The Total Return Fund underperformed the index and peers during the third quarter mainly due to a focus on short and intermediate maturities, while the Unconstrained Bond Fund's performance was in line with the Barclays Aggregate Bond Index. The Total Return and Unconstrained Bond Funds have continued to see outflows, particularly immediately following Gross' departure. Overall firm assets under management decreased to \$1.87 trillion.

As a result of these events, contingency Core/Core Plus and Unconstrained Fixed Income searches are being conducted. Responses to the searches are due at noon on November 14, 2014. In the meantime, the PIMCO Funds will continue to be closely monitored on Watchlist status.

Perkins Mid Cap Value Watchlist Update

Ms. Waddell reminded the Committee that the Perkins Mid Cap Value Fund was placed on Watchlist status given recent portfolio construction changes. Perkins has also experienced material outflows in the

Strategy. Current assets stand at \$8.7 billion. The Fund ranked in the top half of peers for the third quarter, and outpaced its index. Outperformance relative to the index was driven by strong stock selection within industrials and information technology.

Mr. Waddell also provided an update on the organization. On September 2nd, it was announced that Perkins' CEO, Peter Thompson, would be stepping down at the end of the year. Jeff Kautz, current CIO and Portfolio Manager on the Mid Cap Value strategy, will take on the additional title of CEO. Capital Cities believes the new title will not affect his day to day investment-related responsibilities. The Fund will continue to be closely monitored on Watchlist status.

Neuberger Berman Global Thematic Opportunities Fund Watchlist

Mr. Waddell 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. During the third quarter, the Fund underperformed its benchmark primarily as its energy-related holdings suffered from the decline in oil prices. As a result of the recent underperformance, the Fund has experienced asset outflows. Most recently during the quarter, the Fund saw \$37 million in outflows from the Fund. The Fund will continue to be closely monitored on Watchlist status.

Investment Structure Review & Target Date Fund Presentation

Ms. Spudich discussed Hoosier S.T.A.R.T.'s investment line-up and trends within the defined contribution marketplace. Overall, Capital Cities mentioned that Hoosier S.T.A.R.T. reflects many of the best practices within the industry given the paternalistic approach taken by the Committee and Auditor's Office, including: auto-enrollment, auto-escalation, and custom, age-appropriate target date funds as the Plan's default option.

A Target Date Fund review was also provided. Capital Cities highlighted the 2015 roll-down of the Funds and recent performance. Specifically, Capital Cities recommended that the Funds glide down one year along the existing glide path in 2015 which will provide a relatively smooth transition for participants. Additionally, Capital Cities recommended that a 2060 Fund be added, while the 2015 Fund merge into the Retirement Fund. Mr. Vincent moved to approve the recommendations. Mr. Frick seconded.

Additionally, Capital Cities mentioned that the portfolio construction was redesigned in June of 2013 by expanding the opportunity set of the Target Date Funds to provide better overall diversification and downside protection, given the challenges of the current market environment. However, the Target Date Funds have displayed underperformance since the new portfolio construction was implemented five quarters ago. The conservative glide path has caused underperformance relative to off-the-shelf peers given the strong up-market experienced during this time period. Additionally, the more defensively positioned managers within the Target Date Funds have generally detracted relative to their benchmarks. Overall, performance is in line with expectations given the conservative construction and glide path of the Target Date Funds. It is anticipated that the Funds will provide better downside protection than their benchmarks and peers during times of market volatility and/or distress.

V. Old Business

None.

VI. New Business

None.

VI. Adjournment

There being no further business before the Committee the meeting was adjourned at 9:47. The next meeting is February 20, 2015.