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# **INVESTMENT POLICY STATEMENT**

**For**

**State of Indiana Public Employees Deferred Compensation  
457/401(a) Plans:**

**State of Indiana 457 Retirement Plan**

**State of Indiana 401(a) Retirement Plan**

**State of Indiana 457 Retirement Plan- Local Political Sub-Divisions**

**State of Indiana 401(a) Retirement Plan- Local Political Sub-Divisions**

Prepared: October 2005  
Amended: August 2009  
Amended: November 2010  
Amended: November 2011

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# PURPOSE

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State of Indiana maintains the State of Indiana Public Employees Deferred Compensation 457/401(a) Plans: State of Indiana 457 Retirement Plan, State of Indiana 401(a) Retirement Plan, State of Indiana 457 Retirement Plan- Local Political Sub-Divisions and State of Indiana 401(a) Retirement Plan- Local Political Sub-Divisions (hereafter the “Plans” and, individually, a “Plan”) to provide retirement benefits for eligible employees. The Plans permit participants to direct the investment of their respective accounts among available investment options.

The purpose of this Investment Policy Statement (IPS) is to reflect the overall investment objectives of the Plans, the methodology for choosing and overseeing the investments, and the evaluation measures used to evaluate the Plans’ investments. The Plans’ investment program is defined in the various sections of the IPS by:

- Stating in a written document the Indiana Deferred Compensation Committee's (hereafter the “Committee”) objectives, and guidelines in the investment of all Plans’ assets. The five-member Committee is established under the Indiana Code 5-10-1.1-4.
- Encouraging effective communications between the Committee, the Investment Consultant, the Investment Managers, and the participants.
- Setting forth an investment structure for managing all Plans’ assets. This structure includes various asset classes and investment management styles. The Plans intend to provide an appropriate range of investment options that will span the risk/return spectrum.
- Establishing the criteria and procedures for selecting investment options and Investment Managers.
- Establishing formalized criteria to monitor, evaluate and compare the performance results achieved by the Investment Managers on a regular basis.
- Demonstrate that the Committee is fulfilling its fiduciary responsibilities in the management of the investments of the Plans solely in the interests of participants and beneficiaries of the Plans.
- Conform to best practices of peers and as indicated in leading policy standards recommended by the Uniform Management of Public Employee Retirement Systems Act, the Uniform Prudent Investor Act, and the Public Pension Systems Statements of Key Investment Risks and Common Practices to Address Those Risks.

This IPS has been prepared after consideration by the Committee of the financial implications of a wide range of policies, and describes the prudent investment process that the Committee deems appropriate. This IPS is intended to be dynamic in nature and will be amended or revised periodically as needed.

## **STATUTORY AUTHORITY**

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The Indiana Deferred Compensation Plan was originally created under P.L. 42 in 1975. Subsequent legislative actions in 1980, 1988, 1995, and 2001 created the ability of political subdivisions to adopt the state plan, for the State of Indiana to create a matching 401(a) qualified plan and for political subdivisions to adopt the State's 401(a) qualified plan. Collectively, all these plans are referred to in the Investment Policy Statement as the "Plans". The Plans were established for exclusive benefit of eligible employees of State of Indiana or participating local political subdivisions, as well as beneficiaries of participating employees. The purpose of the Plans is to provide retirement benefits to participants and their beneficiaries through participants' salary deferrals and earnings thereon, as well as employer contributions to the 401(a) plans.

Key information regarding the Plans can be found in Appendix A.

## STATEMENT OF OBJECTIVES

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The objectives of the Plans have been established in conjunction with a comprehensive review of the current position. The objectives are:

- Provide choices with clearly defined investment strategies to the Plans' participants.
- Provide Plans' participants with investment choices that are diversified across a range of risk levels, asset classes, and investment strategies in order to accommodate the varying levels of needs and risk tolerance of the Plans' participants in constructing portfolios to meet their particular financial goals.
- Allocation of participant accounts between investment options will be the responsibility of the participant.
- Provide Plans' participants with investment options that have been selected following a thorough due diligence process.
- Monitor the performance of investment options consistent with best practices to satisfy the Committee's fiduciary responsibilities.
- Control the costs of administering the Plans and managing the investments.
- Maintain flexibility in meeting the future needs of the participants.

# **RESPONSIBILITIES**

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## **Responsibilities of the Deferred Compensation Committee**

### **Deferred Compensation Committee Organization**

The Deferred Compensation Committee is a five-member Committee established under Indiana Code 5-10-1.1-4. The Committee serves as the Trustee ("Trustee") of the Plans. As such, the Committee is responsible for the prudent administration of the Plans with specific responsibilities, which include: design of Plans' investment platform; establishing investment policy objectives and guidelines; prudent selection of Investment Managers; and ongoing monitoring. Under IC 5-10-1.1-4, the deferred compensation committee shall, at least annually, report to the state board of finance on the status of the state employees' deferred compensation plan, including any changes to the plan. See IC 5-10-1.1-4. Committee members or anyone acting on their behalf must comply with these provisions. The Committee shall also conduct its responsibilities as outlined in this IPS.

The Committee is comprised of a Governor's Appointee, an Auditor's Appointee, a Treasurer's Appointee and two Board of Finance Appointees. The Committee members of the Plans are fiduciaries, and are responsible for providing the investment framework and monitoring the investment management of Plans' assets.

### **Deferred Compensation Committee Fiduciary Responsibility**

The members of the Committee recognize that they serve as fiduciaries of the Plans. One of their primary responsibilities is providing for the prudent investment of Plan assets. Thus, the Committee shall exercise the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims. The Committee must also provide for the diversification of the investments of the Plans in accordance with prudent investment standards. The Committee has a duty of undivided loyalty, and must be impartial in the exercise of such duty to the beneficiaries of the Plans, as all Plan assets must be used for the exclusive benefit of the Plans' covered members and their beneficiaries. No part of the corpus or income may be used for or diverted to any purpose other than for the "exclusive benefit" of the members or their beneficiaries. See IC 5-10-1.1-4. Committee members or anyone acting on their behalf must comply with these provisions.

### **Deferred Compensation Committee Additional Guidelines**

In addition, the following guidelines are applicable to the Committee:

1. *Compliance with Code of Ethics:* The Committee recognizes that it is governed by a strict code of ethics. Because the Committee believes that public confidence in the Committee's integrity is essential not only for participants in the Plans, but also for the public and taxpayers of the State of Indiana as well, the Committee wishes to ensure that their actions conform not only with the letter of the law but also with the spirit of the law. The Committee acknowledges that it is under the jurisdiction of the State Ethics Commission and is governed by the State Ethics Commissions rules.

The Indiana Code of Ethics covers employees and provides that:

## RESPONSIBILITIES

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A state officer or employee may not receive compensation from any person whom he knows or, in the exercise of reasonable care and diligence should know, has a business relationship with the agency in which the state officer or employee holds a position. See IC 4-2-6-7(2). "Compensation" means any money, thing of value, or financial benefit conferred on, or received by, any person in return for services rendered, or for services to be rendered, whether by that person or another. See IC 4-2-6-1 (6).

2. *Conflict of Interests Rules:* Committee members recognize that all Plans' transactions and selections are to be based on the integrity and competence of the parties with whom the Plans is dealing and upon financial merit and benefit to Plans' participants and their beneficiaries, and not on personal relationships. Committee members shall never act where there may be a conflict of interest or appearance of conflict of interest. They realize they occupy special positions of fiduciary trust and confidence such that each member must studiously and conscientiously avoid any reasonable appearance of conflict. A conflict of interest is understood to be presented in a situation wherein a relationship exists which could reasonably be expected to diminish independence or judgment in performance of official responsibilities as a Committee member. Accordingly, a Committee member shall not engage in conduct that constitutes or involves a conflict of interest. It is the Committee member's duty to determine if a potential conflict of interest exists, to avoid the conflict, if possible, or, where applicable, to disclose a conflict. If a Committee member determines that a conflict of interest or potential conflict of interest exists, that individual shall have an obligation to recuse themselves from participating in the matter. The Committee member shall disclose the reason for any such recusal.
3. *Voting:* Committee members should not participate in a discussion or vote on a matter in which they have a direct or indirect significant financial interest. However, this prohibition does not arise in connection with a matter which would have an insignificant economic effect on any interest of the Committee member, or which affects the member only as a member of the general public or of a subgroup of the general public, such as participants in the Plans as a whole.
4. *Disclosure:* Any person who serves on the Committee shall fully disclose any substantial interest in any entity in which an investment has been made with monies of the Plans. Furthermore, Committee members shall disclose any significant business relationship they have with any vendors or prospective vendors serving or considered for service to the Plans.

### **Deferred Compensation Committee Delegation Authority**

The Committee is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

# RESPONSIBILITIES

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1. *Investment Consultant ("Consultant").* The Consultant will assist and be co-fiduciary with the Committee in: establishing investment policy objectives and guidelines; selecting Investment Managers; reviewing such Investment Managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate, and as otherwise provided through a contractual agreement between the parties. Capital Cities, LLC shall be the Investment Consultant to the Plans and the services to be provided shall be as set forth in the Investment Consultant Agreement attached hereto and made a part hereof, as Attachment A.
2. *Investment Manager.* The Investment Manager has discretion to purchase, sell, or hold the specific securities or products that will be used to meet the Plans' investment objectives. Investment Managers include mutual funds and commingled investment vehicles, and as otherwise provided through a contractual agreement between the parties. Investment Managers will vote the proxies received for the holdings within their portfolios.
3. Additional specialists such as attorneys, auditors, and others may be employed by the Committee to assist in meeting its responsibilities and obligations to administer Plans' assets prudently.

## **Responsibilities of the Administrator**

### **Administrator Organization**

The Indiana State Auditor, as the Administrator ("Administrator") of the Plans, is responsible for all services involved in administration of the Plans. IC 5-10-1.1-1.5(b) and 5-10-1.1-5.

### **Administrator Delegation Authority**

As such, the Auditor of the State is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

1. *Recordkeeper.* The Recordkeeper will calculate individual participant balances; and process participant contributions, disbursements, loans and hardship withdrawals. The Recordkeeper will continually reconcile participant balances with trust account balances to maintain alignment, and as otherwise provided through a contractual agreement between the parties. The responsibilities of Great-West Life & Annuity Insurance Company as directed Third-Party Administrator ("Third-Party Administrator") shall be set forth in the agreement between the Indiana State Auditor and Great-West Life & Annuity Insurance Company, as herein incorporated by reference as Attachment B. Any successor to Great-West, or subsequent contract with Great-West or any other entity, for Recordkeeper services shall also perform the above functions.
2. Additional specialists such as attorneys, auditors, and others may be employed by the Auditor to assist in meeting its responsibilities and obligations to administer Plans' assets prudently.

## **RESPONSIBILITIES**

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3. *Proxy Voting.* All proxy voting on the Plans' mutual funds are to be received and dealt with by the Administrator.

### **Responsibility of Participants**

The Plans are self-directed, and consequently each participant has the responsibility to make his or her own decisions regarding the combination of investment options that best matches his or her needs. Participants are responsible for electing a combination of Investment Funds based on the participant's unique time horizon, risk tolerance, return expectation, and asset class preferences. Neither the State of Indiana nor the Committee make any representation to participants regarding the outcome of individual investment decisions or the adequacy of retirement funds to meet their retirement needs.

*Pursuant to the Indiana Deferred Compensation Plans Investment Policy Statement effective October 2005, the section titled “Guidelines and Investment Policy” is amended as follows:*

## **GUIDELINES AND INVESTMENT POLICY**

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### **Risk Tolerances**

The Committee recognizes the difficulty of achieving the Plans’ investment objectives in light of the uncertainties and complexities of the investment markets. In establishing the risk tolerances of the IPS, the Committee, with the assistance of the Investment Consultant, evaluated the ability of the participants to gain access to a wide range of investment styles covering a broad range of risk and return characteristics. The Committee, with the assistance of the Investment Consultant, sought to provide participants with a broad array of investment choices so they have the ability to construct portfolios which could represent a variety of levels of risk and return regardless of time horizon.

### **Investment Option Structure**

The Committee has chosen to adopt a structure that provides (1) professionally managed target date lifestyle funds; (2) the core building blocks that allow participants to create their own asset allocations based on their unique investment profiles; (3) specialized asset classes for even greater diversification.

The Committee, in seeking to achieve diversity in the Investment Options offered, established certain criteria to determine the material difference between and among potential Investment Options with exposure to the various asset classes. These criteria are:

- A distinct definable market and the availability of a widely used and understood benchmark;
- A distinct risk and return profile as exhibited by historical return analysis; and
- Use of a distinct management style that is definable in terms of the investment strategies/methodologies utilized (e.g., passive versus active management, style investing such as growth versus value).

The Committee reserves the right to add or replace asset classes and Investment Options based upon market conditions, Investment Advisor input, participant response, or other factors.

### **Three Broad Asset Categories**

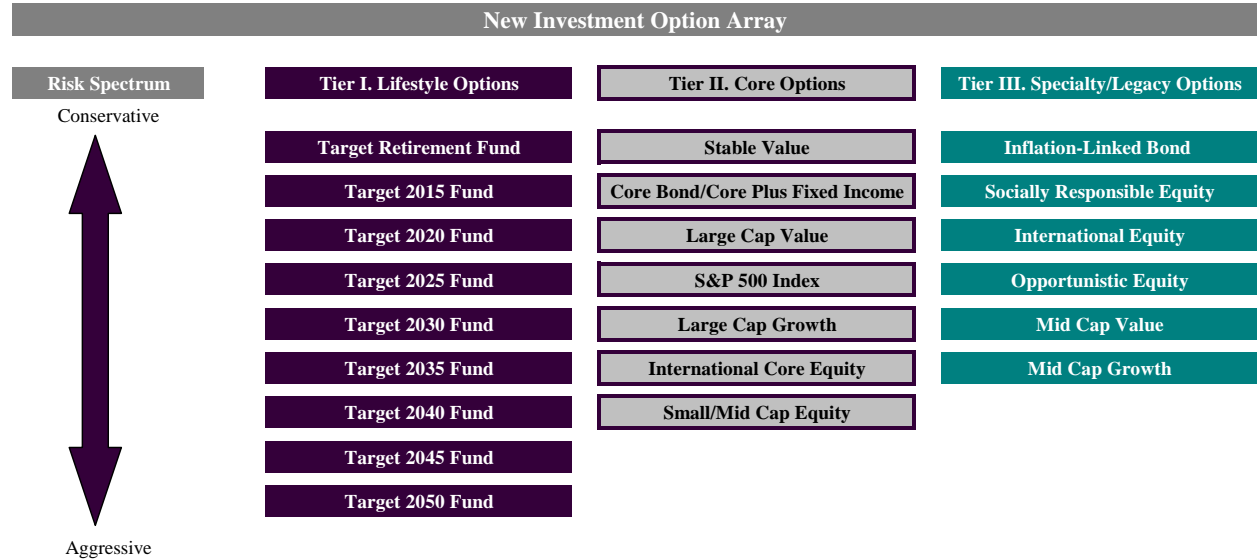
Target Date Options offer diversification and professional management.

Core Investment Options include the basic building blocks participants need to create a diversified portfolio. The broad asset classes offered are: Stable Value; Core Bond/ Core Plus Fixed Income; Large Cap Domestic Equity; International Equity; and Small/Mid Cap Domestic Equity.

*Pursuant to the Indiana Deferred Compensation Plans Investment Policy Statement effective October 2005, the section titled “Guidelines and Investment Policy” is amended as follows:*

## **GUIDELINES AND INVESTMENT POLICY**

Specialty/Legacy Options allow participants to invest in options beyond the selected Core Investment Options.



For a definition and explanation of each asset class, please refer to the investment options section of the IPS located in Appendix B.

The mutual funds and commingled investment vehicles selected by the Committee must adhere to the terms and conditions set forth in the applicable prospectus and/or trust document.

### **Stable Value Fund Background**

The Stable Value Fund seeks to provide a high level of stable current income while providing preservation of capital.

The Stable Value Fund consists of four (4) parts: a money market fund, a short-duration fixed income fund; an intermediate-duration core based fixed income portfolio, and a stable value wrap. The combination of these funds into one portfolio, along with the stable value wrap, is expected to generate a relatively stable level of current income while preserving participants’ capital.

The stable value wrap is provided by the Global Wrap Manager. The Global Wrap Manager is permitted to sub-advise this function to a Global Wrap Sub-advisor. The Global Wrap Manager (or Sub-advisor) will contract with one or more wrap providers to insure the stability of the fund.

The Indiana Deferred Compensation Committee, through a series of resolutions, established the structure of the Stable Value Fund. On March 5, 2002, the Committee resolved, after reviewing Broad Agency Announcement responses, that Fidelity Investments and Lincoln National would act as co-investment managers for the Stable Value Fund. On June 12, 2002, the Committee resolved that the co-investment managers would each manage 50% of the Stable Value Fund

## **SELECTION OF INVESTMENT MANAGERS**

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assets with Lincoln/Delaware acting as Global Wrap Manager. Finally, on August 23, 2002, the Committee resolved that the structure and rebalancing rules of the Stable Value Fund be established as described below:

### **Stable Value Fund Asset Allocation and Rebalancing**

Investment return of the Stable Value Fund is to be calculated and managed by the wrap provider to provide a participant a relatively stable credited interest rate. The credited interest rate is to be reset monthly. The credited interest rate cannot be less than 0.0%, subject to wrap providers satisfying their contractual obligations.

The Stable Value Fund targeted allocation is:

45% Managed Income Portfolio

45% Core Based Portfolio

10% Cash Buffer

The Global Wrap Manager (or Sub-advisor) will use best efforts to rebalance any discrepancy between the amount of the Managed Income Portfolio and the Core Based Portfolio as soon as possible through allocation of the daily net deposits and withdrawals into the cash buffer account in order to maintain the 45%/45% allocation between the two portfolios, within a +/- 2% band.

If the Manager determines that it would be prudent to retain any such excess in the cash buffer account due to anticipated participant activity, the discrepancy may stand for short periods of time. If the allocation is outside of the +/- 2% band at a month end, the Global Wrap Manager would automatically rebalance the Fund using the above procedure. However, during periods of extreme market conditions, which may include excessive volatility or illiquidity in an asset class, or where rebalancing may unduly hinder the Stable Value Fund, the Global Wrap Manager may choose to delay rebalancing the Stable Value Fund. During that period, it is expected that more frequent reviews of the Stable Value Fund's allocation and market conditions will be evaluated to assess the appropriateness of rebalancing the Stable Value Fund.

### **Stable Value Fund Guidelines**

Specific portfolio guidelines for the Core Based Portfolio follow the guidelines for the Stable Value Fund as a whole.

Stable Value Fund guidelines are as follows:

### **Constant Duration Guidelines**

The following limits include all quality and duration guidelines and serve as the foundation for account management.

# SELECTION OF INVESTMENT MANAGERS

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## 1. Duration

Total Portfolio Duration of less than 4 years

## 2. 144a Securities

144a Securities must have Reg Rights

144a max 20%

## 3. Maximum Sector Allocations

FNMA agency Debt 5%

FHLMC agency debt 5%

Foreign government debt 10%

- Corporate debt not issued in the US 10%

Other agency debt (non FNMA, FHLMC 5%)

TIPS 20%

US government guaranteed bank debt 20%

Commercial Paper 25%

- Asset-backed CP 10%

- Corporate CP 25%

Agency MBS 50%

Non Agency MBS 10% (Alt-A max 5% and prime max 10%)

CMBS 20% (20% super senior max, 5% mezzanine max)

Corporates 40%

- Industrials 20%

- Utilities 20%

- Financials 20%

Corporates rated BBB+ and below 25%

ABS 30%

Maximum combination of Non Agency MBS, Corporates, CMBS, & ABS 50%

Max allocation to a single issue 2%

Max allocation to a single issuer 3%

## 4. Credit Quality Minimum

- Agency MBS (AAA)

- Non Agency MBS (AAA)

# SELECTION OF INVESTMENT MANAGERS

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- CMBS (AAA)
- Corporates (BBB-)
- ABS (AAA)
- 20% Minimum in Cash and Government debt

## 5. Other Credit Quality

- Portfolio Credit Quality Minimum AA-
- A minimum of 2 credit rating agencies (Moody's, S&P, and Fitch) must rate all securities.
- In the event of 2 split rated securities, the lower rating will be used. In the event of 3 split ratings, the middle rating will be used.

## 6. Security Restrictions

- No Home Equity Loans
- No Non Agency Sub Prime or Option ARM Debt
- No US Government Agency Subordinated Debt
- All debt must be denominated in USD
- Securities have a maximum maturity of 30 years
- WAL of any CMBS security cannot exceed 10 years

## SELECTION OF INVESTMENT MANAGERS

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The Committee has the responsibility for selecting Investment Managers. The Committee, with the assistance of the Investment Consultant, will select appropriate Investment Managers to manage Plans' assets. The Committee's intent is to follow a process that embodies the principles of procedural due diligence. Accordingly, when selecting Investment Managers, the following minimum criteria must be met:

1. The Investment Manager will be a bank, insurance company, investment management company, or investment adviser as defined by the Investment Advisers Act of 1940.
2. Historical quarterly performance numbers calculated on a time-weighted basis will be utilized for performance screening.
3. Performance evaluation reports that illustrate the risk/return profile of the Investment Manager relative to other investment managers of like investment style will be utilized. Appropriate benchmarks (market indices and/or peer groups as provided in Appendix B) will be used for investment performance evaluation.
4. Detailed information on the history of the firm, key personnel, investment process, costs, and support personnel will be analyzed.
5. The Investment Manager's investment strategy shall be described, and its adherence to the strategy over time shall be documented. The strategy should be definable in terms of the methodologies utilized (i.e. passive (index) versus active management). The portfolio's characteristics should be consistent with the investment philosophy for which it was hired:
  - Equity managers: capitalization, style
  - Fixed income managers: duration, credit quality
6. Fees should be competitive compared to similar investments.
7. A clearly definable market and the availability of widely used benchmarks.
8. A clearly defined risk and return profile as exhibited by historical return analysis.

# CONTROL PROCEDURES

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## Disclosure to Participants

The Plans choose to adhere to the following guidelines:

- The Plans will offer at least three broad-range, diversified investment options each with materially different risk and return characteristics;
- Participants will be allowed to transfer among the investment options as often as appropriate, considering the market volatility of the investment alternative. Currently the Plans offer daily transfers;
- Sufficient information will be available to participants so they can make informed investment decisions.

Participants have individual responsibility to direct investments in their accounts. In order to assist participants in their decisions, the Committee and Administrator will provide the following information to all participants:

- an explanation that the fiduciaries of the Plans may be relieved of liability for any losses which are the direct and necessary result of investment instructions given by participants;
- a description of investment alternatives, including their investment objectives, risk and return characteristics, and the type and diversification of assets comprising the portfolio of the designated investment alternative;
- identification of any designated Investment Managers;
- an explanation of when and how participants may give investment instructions, including any restrictions on transfers;
- a description of any redemption fees or withdrawal penalties applied to investment alternatives;
- a description of any transaction fees and expenses which affect a Participant's account balance in connection with purchases or sales of interests in investment alternatives;
- a copy of the most recent prospectus provided to the Plans will be provided to the Participant immediately following the Participant's initial investment in an investment subject to the Securities Act of 1933.

Additional disclosures that will be provided, upon request, are:

- a description of the annual operating expenses of each investment vehicle including the investment management and other fees;

## CONTROL PROCEDURES

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- copies of the most recent prospectuses, financial statements and reports, and any other materials relating to investment vehicles available under the Plans to the extent such information is provided to the Plans, will be provided upon request to Participants;
- a list of assets included in each investment option and the value of each asset;
- information concerning the value of shares or units in investment alternatives;
- performance data for each investment vehicle, net of expenses, presented over reasonable periods of time, calculated in a reasonable and consistent manner;
- the values of shares or units of investment funds held in a Participant's account balance as of the last valuation date (but not less frequently than quarterly).

The Committee will not provide individual retirement or investment counseling to participants. This IPS will be made available to eligible employees upon request. Efforts will be made to ensure all participants, regardless of whether or not they are current employees, receive all correspondence regarding Plans' developments and changes. However, ultimate responsibility for investment decisions rests with the participants. Participants are strongly encouraged to utilize all sources of information described above, as well as information provided on the HoosierStart website.

## **MONITORING OF INVESTMENT MANAGERS**

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The Committee is aware that the ongoing review and analysis of Investment Managers is just as important as the due diligence implemented during the Investment Managers selection process. The Committee may delete and/or replace a particular style of investment management, if they deem appropriate. In addition, the Committee may add a particular style of investment management, if deemed appropriate. Monitoring Investment Managers is a three step process, outlined below:

### **Step 1 - On-Going Monitoring**

The Investment Consultant and the Committee will perform on-going analysis of all Investment Managers included in the Plans on a quarterly basis. In addition to reviewing quarterly investment performance, the Investment Consultant and the Committee will evaluate:

- Investment Manager's adherence to the IPS guidelines
- Material changes in the Investment Manager's organization, investment philosophy and/or personnel
- The volatility of the investment rates of return of the Investment Manager compared to the volatility of an appropriate market index and/or peer group (as listed in Appendix B)
- Comparisons of the Investment Manager's results to appropriate indices and/or peer groups (as listed in Appendix B)

### **Step 2 - Formal Watchlist**

If the Investment Consultant and the Committee determine that any of the above factors, or any other development regarding the Investment Manager's performance or organization, warrants a more thorough examination, the Committee and Investment Consultant will place the Investment Manager on a formal "watchlist". Factors evaluated during the watchlist examination include, but are not limited to, the following:

- Extraordinary Events (Organizational Issues)

Extraordinary events may include such things as:

- Change in ownership (e.g., key people "cash out")
- Change in professionals
- Changes to an Investment Manager's philosophy or the process it uses to implement the agreed upon strategy
- Investment Manager is involved in material litigation or fraud
- Client-servicing problems
- Significant account losses or significant account growth
- Change in cost
- Change in financial condition
- Extreme performance volatility

*Pursuant to the Indiana Deferred Compensation Plans Investment Policy Statement effective October 2005, the section titled "Monitoring of Money Managers" is amended as follows:*

## **MONITORING OF INVESTMENT MANAGERS**

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- Long-Term Performance in Relation to Appropriate Market Index

Long-term performance standards measure an Investment Manager's performance over rolling five-year returns or since-inception in relation to the appropriate market index.

- Shorter-Term Performance in Relation to Appropriate "Style (Peer) Group"

Shorter-term performance standards incorporate a time period of at least three years. Each Investment Manager is expected to consistently perform in the top 50th percentile versus an appropriate peer group of Investment Managers with similar investment styles. Additionally, each Investment Manager is expected to demonstrate favorable cumulative and rolling three-year risk-adjusted performance compared to its peer group. Risk-adjusted performance measures will vary, but may include: Sharpe Ratio, Downside Risk, Information Ratio, and/or Relative Standard Deviation.

### **Step 3 - Replace or Retain**

As a result of the watchlist examination of the Investment Manager, a recommendation from the Committee or Investment Consultant to either **replace** or **retain** the Investment Manager will be made. If a recommendation is made to retain the Investment Manager, a watchlist evaluation period may be established to more closely monitor the Investment Manager. This period will generally be four quarters, but can be shorter or longer depending on the circumstances leading to the watchlist examination.

It is at the Committee's discretion to take corrective action by replacing an Investment Manager, if it deems it appropriate, at any time. The watchlist is not the only route for removing an existing Investment Manager. The aforementioned events, or any other events of concern identified by the Committee and/or the Investment Consultant, may prompt the immediate removal of an Investment Manager without it being watchlisted.

## **IPS REVIEW AND EVALUATION**

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The Committee and the Investment Consultant will review the IPS periodically to determine whether any changes are appropriate. Based on the Committee's and the Investment Consultant's IPS review, the Committee may revise the IPS or alter the Investment Managers to meet current needs. In conjunction with this review, as indicated previously, the Committee also will annually review the performance of Investment Consultant in carrying out its responsibilities under this IPS.

# SIGNATURES

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Prepared:  
Capital Cities, L.L.C.

Date: 12/13/11

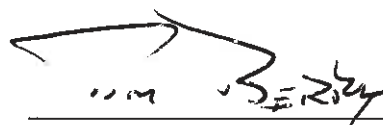
  
Investment Consultant

Accepted:  
Indiana Deferred Compensation Committee

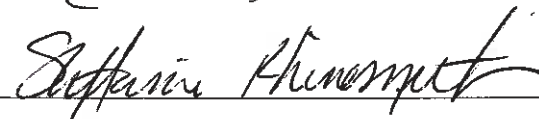
Date: 11/18/11











# APPENDIX A

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## Key Information:

Name of Plans: State of Indiana 457 Retirement Plan  
State of Indiana 401(a) Retirement Plan  
State of Indiana 457 Retirement Plan- Local Political Sub-Divisions  
State of Indiana 401(a) Retirement Plan- Local Political Sub-Divisions

Plans Effective Date:  
State of Indiana 457 Retirement Plan: 1981  
State of Indiana 401(a) Retirement Plan: 10/27/1999  
State of Indiana 457 Retirement Plan- Local Political Sub-Divisions: 1981  
State of Indiana 401(a) Retirement Plan- Local Political Sub-Divisions: 1/1/2002

Plans IRS Tax Identification: 35-2062414 (Plan Number: 014)

Plans Administrator: Indiana State Auditor

Plans Third-Party Administrator: Great-West Life & Annuity Insurance Company

Plans Trustee: Indiana Deferred Compensation Committee

Indiana Deferred Compensation Committee:  
Treasurer's Appointee  
Auditor's Appointee  
Governor's Appointee  
Board of Finance Appointee  
Board of Finance Appointee

Type of Plans: Deferred Compensation Plans

Current Assets (as of September 30, 2011):  
State of Indiana 457 Retirement Plan \$581,255,483  
State of Indiana 401(a) Retirement Plan \$69,004,352  
State of Indiana 457 Retirement Plan- Local Political Sub-Divisions \$129,013,862  
State of Indiana 401(a) Retirement Plan- Local Political Sub-Divisions \$2,651,285

Participant Directed Investment Options: Yes

Frequency to Change Investment Options: Daily

Investment Consultant: Capital Cities, L.L.C.  
Joe Bill Wiley (317) 475-4500  
Janet Sweet (317) 475-4500  
Bill Mauger (317) 475-4500

## APPENDIX A

### Historical Record:

<u>Date</u>	<u>Change</u>	<u>Comments</u>
Nov, 2011	Investment Policy Statement amended.	IPS is reviewed and updated regularly.
Aug, 2011	As part of the Committee's annual review of the custom Indiana Target Date Funds, the Committee elected to make changes to the asset allocation of the Funds in accordance with the Funds' objectives.	Changes occurred at the end of the year.
Nov, 2010	Investment Policy Statement amended.	IPS is reviewed and updated regularly.
Nov, 2010	After conducting an analysis of the Fidelity Low-Priced Stock Fund, the Committee elected to re-open the Fund to participants.	The Fund was re-opened effective January 27, 2011.
Sept, 2010	A glidepath analysis was conducted for the Indiana Target Retirement Funds. As a result, the asset allocation of the Target Date Funds was changed and the Indiana 2050, 2040, 2030 and 2020 Funds were added to the Plans. Further, the Indiana 2010 Fund rolled into the Indiana Retirement Fund.	Changes implemented on January 27, 2011.
Sept, 2010	As a result of a manager search, the Committee selected the BlackRock Inflation Protected Bond Fund as the new "Inflation-Linked Bond Fund" to offer participants.	Change implemented on January 27, 2011.
Aug, 2009	Investment Policy Statement amended.	IPS is reviewed and updated regularly.
Feb, 2009	Plans moved to the least expensive share classes available of Wells Fargo Adv Capital Growth and Janus Adviser Mid Cap Value.	Change in share class of Wells and Janus saved participants 19 and 50 basis points respectively in fees.
June, 2008	BlackRock Large Cap Value was selected as the new Large Cap Value option after conducting a manager search.	AllianceBernstein Growth & Income Fund was replaced in October 2008 due to performance and product concerns.
March, 2008	IronBridge SMID Cap Equity was selected as the new Small Cap Broad option after conducting a manager	Goldman Sachs CORE Small Cap Equity was replaced in July 2008 due to personnel issues and underperformance.

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	search.	
Nov, 2007	Transitioned Plans to the Julius Baer (Artio) International Equity collective investment fund from the mutual fund.	Change in vehicle saved participants a minimum of 4 bps in fees.
Aug, 2007	After conducting a lifestyle funds analysis and default option analysis, the Plans implemented Time-based Lifestyle Funds, replacing the Risk-based Lifestyle Funds.	As a result, defaulted assets are placed into the appropriate target date fund based on the age and assumed time to retirement of the participant.
July, 2006	After conducting an Indiana Stable Value analysis, a fee reduction of 3 bps was implemented.	None.
Dec, 2005	Implemented the Domini Social Equity Institutional share class in replacement of the Retirement share class.	Change in share class saved participants 23 bps in fees.
Dec, 2005	Investment Policy Statement prepared and executed.	None.
Sept, 2005	After completing an analysis of the Lifestyle Funds, the Funds were restructured to resolve asset allocation, style, and capitalization issues.	New structures were implemented in December, 2005.
Aug, 2005	Investment Manager searches were conducted. The following managers were selected: Wells Fargo Advantage Capital Growth (LCG), Janus Adviser Mid Cap Value (MCV), Goldman Sachs CORE Small Cap Equity (SCB) and Julius Baer (Artio) International Equity II (Int'l)	New options were implemented in December, 2005.
July, 2005	As a result of an investment structure evaluation, the following managers were voted to be replaced or eliminated: Wells Fargo Large Company (LCG), Brown Capital Management Small Company Growth (SCG), American Beacon Small Cap Value (SCV). Mid Cap Value, Small Cap Broad and International Equity manager searches were also recommended.	None.

\*Appendix A information is as of November, 2011.

## APPENDIX B

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### Selected Investment Options:

To provide appropriate investment alternatives for participants, investment choices will be made available that provide a broad range of risk and return characteristics. The Committee has selected options representing the following investment styles and objectives.

**Large Cap Core Equity Index:** Large Cap Core Equity Index Style managers hold portfolios with characteristics similar to those of the broader market as represented by the Standard & Poor's 500 Index.

**Large Cap Core Equity:** Large Cap Core managers' portfolio holdings and characteristics are similar to that of the broader market as represented by the Standard & Poor's 500 Index or KL Domini 400 Social Index, with the objective of adding value over and above the index, typically from sector or issue selection.

**Large Cap Value Equity:** Large Cap Value Equity managers invest in predominately large capitalization companies believed to be undervalued or possessing lower than average price to book and price to earnings ratios. The companies are expected to have a near-term earnings rebound and realize their potential for capital appreciation.

**Large Cap Growth Equity:** Large Cap Growth Equity managers invest in predominately large capitalization companies that are expected to have above average prospects for long-term growth in earnings and profitability. Future growth prospects take precedence over valuation levels in the stock selection process.

**Mid Cap Growth Equity:** Mid Cap Growth managers invest primarily in mid capitalization companies that are expected to have above-average prospects for long-term growth in earnings and profitability. Future growth prospects take precedence over valuation levels in selecting stocks.

**Mid Cap Value Equity:** Mid Cap Value Equity managers invest primarily in mid-capitalization companies believed to be currently undervalued in the general market. Valuation issues take precedence over near term earnings prospects in the stock selection process. Market capitalizations are generally between core (large) equity companies and small capitalization companies.

**Small Cap Broad Equity:** Small Cap Broad Equity managers invest primarily in companies with relatively small capitalization. The companies typically have zero dividends or dividend yields below the broader market. The securities exhibit greater volatility than the broader market as measured by the risk statistics beta and standard deviation. Managers will generally invest in both value and growth stocks.

**International Core Equity:** International Core Equity managers invest in a well-diversified portfolio of mostly large issues in developed countries with liquid markets, resulting in characteristics similar to that of an index such as the Morgan Stanley Capital International (MSCI) EAFE Index or MSCI ACWI-ex US Index.

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**Lifestyle/Balanced:** This style consists of funds whose primary objective is to split its investment assets among stocks, bonds, and other investment vehicles in an attempt to provide consistent return for the investor while diversifying an investor's assets among different types of investment products.

**Inflation-Protected Bond:** Inflation-Protected Bond Managers seek to protect investment principal and interest against erosion from inflation over the long term. Typically Managers will invest in inflation-protected debt securities issued by the U.S. Treasury, U.S. government agencies and by other entities such as corporations and foreign governments.

**Core Bond:** Core Bond managers construct portfolios to approximate the investment results of the Barclays Government/Credit Bond Index or the Barclays Aggregate Bond Index with a modest amount of variability in duration around the index. The objective is to achieve value added from sector and/or issue selection.

**Stable Value:** Seeks to provide a competitive level of income over time while preserving the principal value. Returns are expected to be above that of a money market fund.

### **Qualified Default Investment Alternative (QDIA)**

The discretionary assets of participants who do not make an active selection among the available options will be placed in the Plans' Qualified Default Investment Alternative (QDIA). Among the QDIA options defined by 404(c) (5), the Target Date Investment Funds were selected because they suit the needs of Plans' participants. Defaulted assets will be placed into the appropriate target date fund based on the age and assumed time to retirement of the participant.

### **Selected Managers and Relevant Peer Group:**

Asset Category	Index	Peer Group Universe
<b>Domestic Large Cap Equity</b>		
Vanguard Institutional Index	S&P 500	Core Equity
Domini Social Equity	S&P 500/KL Domini 400 Social Index	Core Equity
BlackRock Large Cap Value	Russell 1000 Value	Large Cap Value
Wells Fargo Advantage Capital Growth	Russell 1000 Growth	Large Cap Growth
<b>Domestic Mid/Small Cap Equity</b>		
Janus Adviser Mid Cap Value	Russell Midcap Value	Mid Cap Value
Vanguard Capital Opportunity	Russell Midcap Growth	Mid Cap Growth
IronBridge SMID Cap Equity	Russell 2500	Small Cap Broad
<b>International Equity</b>		
Fidelity Diversified International	MSCI EAFE	International Core Equity

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Artio International Equity II	MSCI ACWI-ex US	International Core Equity
<b>Specialty/Oppportunistic Equity</b>		
Fidelity Low-Priced Stock	Russell 2000	Total Domestic Equity
<b>Lifestyle/Balanced</b>		
Indiana 2050 Fund	Indiana 2050 Bench*	
Indiana 2045 Fund	Indiana 2045 Bench*	
Indiana 2040 Fund	Indiana 2040 Bench*	
Indiana 2035 Fund	Indiana 2035 Bench*	
Indiana 2030 Fund	Indiana 2030 Bench*	
Indiana 2025 Fund	Indiana 2025 Bench*	
Indiana 2020 Fund	Indiana 2020 Bench*	
Indiana 2015 Fund	Indiana 2015 Bench*	
Indiana Retirement Fund	Indiana Retirement Bench*	
<b>Inflation-Linked Fixed Income</b>		
Inflation-Linked Bond Fund (BlackRock Inflation Protected Bd)	BC US TIPS	TIPS
<b>Domestic Fixed Income</b>		
PIMCO Total Return	BC Aggregate	Core Bond
<b>Cash/Stable Value</b>		
Indiana Stable Value Fund	Citi 3 Month T-Bill	

\* Stated index consisting of different percentages of the S&P 500 Index; Russell 2500 Index; Morgan Stanley Capital International All Country World Index ex U.S.; Barclays Capital U.S. Aggregate Bond Index; Barclays Capital US TIPS Index; and Citi 3 Month T-Bill. The percentages are based on the Funds' glidepath.

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### Current Investment Option Array:

New Investment Option Array				
Risk Spectrum	Tier I. Lifestyle Options	Tier II. Core Options	Tier III. Specialty Options	
Conservative	Indiana Retirement Fund	Indiana Stable Value	Inflation-Linked Bond Fund	
	Indiana 2015 Fund	PIMCO Total Return	Domini Social Equity	
	Indiana 2020 Fund	BlackRock Large Cap Value	Fidelity Div. International	
	Indiana 2025 Fund	Vanguard Institutional Index Fund	Perkins Mid Cap Value	
	Indiana 2030 Fund	Wells Capital Advant. Growth	Vanguard Capital Opportunity	
	Indiana 2035 Fund	Artio International Equity II	Fidelity Low-Priced Stock	
	Indiana 2040 Fund	Frontegra IronBridge SMID		
	Indiana 2045 Fund			
	Indiana 2050 Fund			
	Aggressive			

\*Legacy Options: Artio International Equity II was added to the option array due to Fidelity Div. International's inability to be included in the Lifestyle Options, thus reclassifying Fidelity Div. International as a "Legacy" option.

### Indiana Lifestyle Funds Construction:

Underlying Funds	2050	2045	2040	2035	2030	2025	2020	2015	Retire
Vanguard Institutional Index	48%	47%	44%	42%	38%	34%	29%	23%	18%
Frontegra Ironbridge SMID	12%	12%	11%	10%	10%	8%	7%	6%	5%
Artio International Equity II	20%	20%	19%	17%	16%	14%	12%	9%	7%
PIMCO Total Return	20%	21%	26%	31%	36%	44%	40%	39%	37%
BlackRock Infl Protected Bd	0%	0%	0%	0%	0%	0%	5%	10%	13%
Indiana Stable Value	0%	0%	0%	0%	0%	0%	7%	13%	20%
<b>Total Equity</b>	<b>80%</b>	<b>79%</b>	<b>74%</b>	<b>69%</b>	<b>64%</b>	<b>56%</b>	<b>48%</b>	<b>38%</b>	<b>30%</b>
<b>Total Fixed</b>	<b>20%</b>	<b>21%</b>	<b>26%</b>	<b>31%</b>	<b>36%</b>	<b>44%</b>	<b>52%</b>	<b>62%</b>	<b>70%</b>

\*Appendix B information is as of November, 2011.

# **ATTACHMENT A – INVESTMENT CONSULTANT AGREEMENT**

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# **ATTACHMENT B – THIRD-PARTY ADMINISTRATOR AGREEMENT**

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