



**MINUTES
PUBLIC MEETING
February 14, 2014
9:00 am**

Indiana Government Center South- Conference Rm. 14

I. Call to Order/Roll Call

State Auditor Suzanne Crouch called the meeting to order at 9:02 am. Other committee members present were Mike Frick, Deputy Treasurer, Steffanie Rhinesmith, Martha Lake and Zac Jackson. Also present were Erin Sheridan, Deputy Auditor of State, Richard Mourdock, Treasurer of State, Jaimie Beisel with Great-West Financial (Third Party Administrator to the Plan), Mike Paton of Barnes & Thornburg (Counsel to the Committee and the Administrator), Tiffany Spudich, Joe Bill Wiley, and Tarek Zeni with Capital Cities (Investments Consultants to the Committee) and Maegan Otten with the Auditor of State's Office.

II. Reading of the Minutes

Auditor Crouch asked for a motion to approve the minutes from the August 16, 2013, 2013 meeting. Mr. Frick moved to approve the minutes. Mr. Jackson seconded. The minutes were approved unanimously.

III. Administrators Report

Auditor Crouch explained to the committee the recent changes in the State Auditor's office. Dwayne Sawyer had resigned from the office December 15th, and Erin Sheridan was appointed interim Auditor of State. January 2nd, 2014. Auditor Crouch was appointed Auditor of State by the Governor and will serve the remainder of Tim Berry's term.

Auditor Crouch is from Evansville and was a former county commissioner, county auditor, and state Representative and is now honored and thankful to be serving as State Auditor.

Erin Sheridan announced an upcoming legislative breakfast to review retirement accounts. The theme is 'Get Your Retirement Checkup: Screening Your Financial Wellness'. It is scheduled for March 6, 2014 from 8-10am. The intended audience is over 3000 state employees in the statehouse as well as the legislators. Mr. Beisel and his team will be on hand to answer questions, recruit new participants, demonstrate the website and promote a healthy retirement. We will also have an individual on hand to give blood pressure screenings to go along with the healthy theme of retirement.

Auditor Crouch went on to thank Steffanie Rhinesmith for her service on the board. She has been a member for 6 years and provided incredible expertise and insight that has been helpful and needed.

Jaimie Beisel discussed the annual successful fall dinners and 'Fee Holiday' from last fall. He also discussed the numbers regarding enrollment over the last quarter of the year and reported near 3,000 participants who met with their retirement counselor. Auditor Crouch mentioned a 'fee holiday' that may be possible for the March 6th breakfast and Jaimie Beisel responded that would research the answer.

IV. Management Consultants Report

Market Review/Performance and Evaluation Annual Report

Ms. Spudich and Mr. Wiley re-introduced Mr. Zeni with Capital Cities. Mr. Zeni gave the market review this quarter. 2013 was a year of firsts and positives in many regards. This was the first year since 1995 that there was a government shutdown, the federal debt ceiling was being bounced around, and also the year had more than a 30% return in the S&P 500 in more than the last 15 years. Some major things are sequestration and cuts, budget deals, federal debt ceiling, and the ability of Wall Street to read the signals coming out of Washington. In 2014, investors are going to look for tapering in regards to the feds and how the economy is progressing. Themes affecting 2013 were The Accommodative Federal Reserve Monetary Policy still stayed very low and caused investors to look towards equities. Healthy Corporate Earnings and Balance Sheets increased profit margins, reduced debt and maintained high cash levels. The economic environment improved meaning that unemployment moved lower and inflations are still low. Housing prices increases and added to more consumer spending. Also in 2013's contrast patterns, the equities did best in years while fixed income stocks were at their worst in years. Putting 2008 behind us and keeping 2013 with us, the models are looking great. In 2014, GDP growth will be stronger and possibly improved to 2.5-3%. Interest rates are expected to rise, not as much as in 2013 though. In the Eurozone, there is lots of work to do to catch up with Germany. Emerging markets concerns include currencies and dependence on foreign loans. Most of 2013 risks are still risks in 2014 and/or the recovery stalling and heightened inflation. In portfolio strategy, patience is key and utility passive equity for cost effectiveness and exposure. Fixed Incomes are marked by negative returns from last year, but still plays an important role. Additional diversification will also be a factor. Ms. Spudich also discussed target date funds and addressed them as becoming more paternalistic as approved by the committee approval.

Watchlist and Manager Alert Updates

Ms. Spudich discussed the timeline of projects for INDC in 2014 for each quarter. These are helpful guidelines for fiduciary duties.

Blackrock LCV MidCap Value

On to the BlackRock Large Cap Value was discussed and will remain on Watchlist due to short term underperformance, personnel changes, and changes to the investment process. It was put on Watchlist in the first quarter of 2012. Bob Doll, Chief Equity Strategist and Lead Portfolio Manager of the Large Cap Value Fund announced his retirement shortly after the fund went on Watchlist. Several changes to the investment process have followed that announcement. Cap Cities has mentioned the stability of the team, asset flows, and performance.

Perkins MidCap Value

The Perkins MidCap Value has been performing within expectations and has historically taken a defensive strategy that provided downside protection. However, in this up market its not performing as well as others. Perkins has also reduced their cash position. They want their funds and stocks to reflect more concentration and conviction in their holdings and will become less defensive going forward. They are expected to participate in the up market as well. Discussion between Ms. Spudich and Treasurer

Mourdock was also entertained. Perkins is also removing an equity put, or insurance. They will be watched closely to see if they match their benchmark. Cap Cities recommends close watch of asset outflows over the next 4-6 quarters.

Auditor Crouch asked for a motion to put Perkins MidCap Value on the watch list. Ms. Rhinesmith moved, Ms. Lake second, the motion passed.

Ms. Spudich and Treasurer Mourdock discussed past performance, possible future moves, and/ or change in philosophy. Mr. Wiley discussed doing a search for possible replacements with Ms. Rhinesmith.

Ms. Spudich requested that if Perkins went for search, that IronBridge would be put out for search as well in order to survey the small and small-mid cap equity marketplace. There will be no additional cost incurred for searching. Auditor Crouch asked for a motion to put out a search for small and mid-cap funds. Mr. Jackson moved, Mr. Frick seconded, the motion passed.

PIMCO Total Return/Unconstrained Bond

Mr. Wiley went on to discuss PIMCO changes that have made news. PIMCO is the largest fixed income manager in the world. They announced 1-21-14 Mohamed El-Erian was leaving the firm. He was the deputy CIO and his leaving was a surprise. It is uncertain who would be Bill Gross's successor when the time comes. Other organizational changes were also announced shortly after Mr. El-Erian's resignation. CapCities recommended placing PIMCO on the Watchlist. Indiana Flexible Bond Fund and Target Retirement Funds will be affected. Ms. Crouch asked for a motion to place PIMCO on the Watchlist, Ms. Lake moved, Mr. Frick seconded, the motion was approved. Ms. Crouch asked for a motion to put PIMCO on the Watchlist. Mr. Frick moved to put PIMCO on the Watchlist, Ms. Lake seconded, the motion approved.

Cap Cities Contract Review

Mr. Wiley discussed the agreement for a continued extended contract between CapCities and the Committee. After discussion between most members of the board, Auditor Crouch asked for a motion to approve the amendment to the contract. Mr. Frick moved, Mr. Jackson seconded, and motion was approved.

IV. Old Business

V. New Business

VI. Adjournment

There being no further business before the Committee the meeting was adjourned at 9:45 a.m. The next meeting is May 16th, 2014.