



**MINUTES
PUBLIC MEETING
FRIDAY, February 15, 2008
9:00 AM
Auditor of State's Office Room 240**

I. Call to Order/Roll Call

Auditor Tim Berry called the meeting to order at 9:00 AM.

Richard Mourdock and Judy Rhodes, were present.

II. Reading of the Minutes

Judy Rhodes moved to approve the November 16, 2007 Public Meeting minutes as amended. Treasurer Richard Mourdock seconded the motion and the minutes were approved unanimously.

III. Investment Management Consultant's Report

Investment Performance Report:

Janet Sweet of Capital Cities, LLC gave the fourth quarter investment performance report. Over the last quarter, all equity styles posted returns in the red. Growth continued to outpace Value by a margin of over 500 basis points in the Domestic Large Cap space during the quarter. Large Cap Growth outperformed all of its Domestic and International counterparts over the quarter and one-year time period. International equity, with an 11.17% return, came in a close second to Large Cap (+11.81%) over the last year. Spurred by fears of recession, subprime contagion and large write-downs by banks, the flight to quality continued in the fixed income market in the fourth quarter. Treasuries led performance with a 3.96% return for the quarter and 9.01% return over the last year. High Yield was the only Fixed Income style to produce a negative return for the quarter (-1.30%), and has significantly trailed its Fixed Income counterparts for the last year time period.

On October 24, 2007, the DOL published final regulations defining a Qualified Default Investment Alternative, which became effective December 24, 2007. It was suggested by Capital Cities that the recently signed amendment to Investment Policy Statement be added as an appendix. The discretionary assets of participants who do not make an active selection among the available options will be placed in the Plan's 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 Plan's participants. Defaulted assets will be placed into the appropriate target date fund based on the age and assumed time to retirement of participants. Treasurer Richard Mourdock moved to approve the modified Investment Policy Statement. Judy Rhodes seconded and the motion was approved.

Alliance Bernstein Growth & Income Fund has experienced short and long-term underperformance. Over the last quarter, the Fund decreased its mega cap bias to be slightly lower than that of the Russell 1000 Value Index. The Fund posted a -2.60% return, beating the Index by 320 basis points and ranking at the 29th percentile versus its peers. It is recommended that they continue on the Watchlist and be closely monitored.

Julius Baer International Equity II Fund (JETIX) was replaced with the Julius Baer International Equity II Collective Investment Fund (CIF) on November 8, 2007. The CIF follows the same investment philosophy and process, but at a reduced expense ratio of that of the mutual fund product previously in the investment option array. There was miscommunication in the accrual for NAV fee's for three months between Julius Baer and Great West. A proposal on how to recover these fees are still being discussed.

Logan's Sub-advisory relationship with Dwight as the Global Wrap Manager for the Stable Value Product is set to end on February 29, 2008. Logan has negotiated an extension with Dwight for an additional 90 Days. Logan is currently engaged in negotiations with another Global Wrap Provider who will be able to provide similar services once Dwight is terminated. Capital Cities, LLC will continue to monitor the process of these negotiations.

On November 8, 2007, Capital Cities recommended placing Goldman Sachs Structured Small Cap Equity product on Watchlist status due to significant underperformance over the last year, along with changes to the team. Following this recommendation, Capital Cities further investigated to assess whether the volatility in the Fund's performance was explainable. With this Watchlist recommendation, Capital Cities also conducted further due diligence to uncover any potential issues with regards to Goldman's philosophy and process, the investment team, product dynamics and price. Based on the performance and investment team issues uncovered in this further analysis, Capital Cities recommends termination of the Goldman Sachs Structured Small Cap Equity Fund. Capital Cities will conduct a small cap broad manager search, specifically looking for a manager who complements the other domestic equity managers in the Plans. Consideration will be given to the consistency of the investment manager's philosophy and process, tenure of

the team, appropriate risk-adjusted performance, and pricing in-line with peers. They will present the finalists in a special Deferred Compensation Committee meeting in April. Richard Mourdock moved to replace Goldman Sachs Structured Small Cap Equity Fund with a new small cap broad manager as soon as possible. Judy Rhodes seconded the motion and the motion unanimously approved.

Janet Sweet presented the Indiana Deferred Compensation Annual Report to the Committee. This report will be submitted to the State Board of Finance on March 18, 2008, pursuant to IC 5-10-1.1-4(h).

IV. Administrator's Report

BKD, LLP was engaged to perform an Independent Accountants' Report on Application of Agreed-Upon Procedures for the years ended December 31, 2006 and 2005. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. This Report was presented to the Board. There were no material findings noted in the Audit Report.

Auditor Berry reported the Plan has seen a huge increase of new employees participating in the Plan as a result of the automatic enrollment process and that only 3 to 3.5% of state employees are choosing to opt out of the plan.

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V. New/Old Business

VI. Adjournment

There being no further business before the Committee the meeting was adjourned at 10:10 am.