



**MINUTES
PUBLIC MEETING
February 18, 2011
9:00 am
State House Suite 240
State Auditor's Conference Room**

I. Call to Order/Roll Call

Auditor Tim Berry called the meeting to order at 8:59am. Committee members present were, Deputy Treasurer Jim Holden, Steffanie Rhinesmith, and Martha Lake. Also present were Zac Jackson with the State Budget Agency, Kirke Willing, Deputy Auditor, Jaimie Beisel and Jane Jerger with Great-West Retirement Services (Third Party Administrator to the Plan), Mike Paton of Barnes & Thornburg (Counsel to the Committee and the Administrator), Amanda and Joe Bill Wiley with Capital Cities (Investments Consultants to the Committee) and Erin Sheridan with the Auditor of State's Office.

II. Reading of the Minutes

Tim Berry asked for a motion to approve the minutes from the November 19, 2010 meeting. Steffanie Rhinesmith moved to approve the minutes. Martha Lake seconded. The minutes were approved unanimously.

II. Administrator's Report

Performance & Evaluation Annual Report

Capital Cities is required to provide the board annually with a Performance & Evaluation Report (for year ending December 31, 2010) that highlights the overall Manager Performance which is monitored ongoing throughout the year by Capital Cities Investment Committee. The report gives a better view of the overall performance of every single manager. The report is then presented to the Indiana State Board of Finance as required by statute. The report did not indicate any red lights on the stop light matrix on any current Managers that would prompt the Deferred Compensation Committee to take action.

IV. Management Consultants Report

Market Overview Discussion

Amanda provided a brief summary of the Market Overview that highlighted the current economic environment which indicates a modest recovery underway with markets that are wary. Growth returned in the second half of 2009, but the job market struggles will likely continue in to 2011. Everyone expected growth to subside in 2010 as the stimulus faded. Q4 saw signs of economic stability; return of investor confidence which made 2010 end surprisingly well. Major themes are still dominating the economy and

factor in to the success of the Capital Markets.

In recognizing the major themes happening in the economy, GDP has been revised upward for 2011 and 2012 up to 3%. However, Amanda added that although this is positive is it very modest. Inflation continues to be a major theme as most plans are now adding real return funds to their portfolios to hedge against rising inflation. That being said however, inflation still remains in check due to the lack of consumer and business spending and lack of sustainable Job growth. Aggregate Demand on the business side is especially keeping growth and inflation down as Corporations are sitting on cash as they do not trust the prospects for growth and are hesitant to put cash to work. Aggregate Demand on the consumer side has stabilized, but is not a strong enough driver for the recovery.

Interest rates also continue to be a major theme with them being so low, the threat of rising rates from the Fed is becoming more and more real. With a potential flattening of the yield curve, short term rates will likely rise more than long term rates, proving detrimental to fixed income returns in the near-term.

Lastly, the European Debt Crisis will continue to be something to watch and will continue to create uncertainty in the world-wide markets.

The bottom line is investors across the board are faced with the prospect of lower expected returns in the face of continued economic uncertainty.

Quarterly Report

Amanda briefly covered the 4th quarter report stating that the investment option array changed on January 27, 2011 and will be reflected in the 1Q 2011 Report. There are a couple of Managers that are being reviewed on an on-going basis, but there have been no changes to the stop light matrix. Total assets are currently at \$833,236,951.00.

2010 Fee Analysis

Joe Bill Wiley explained the Fee Analysis. One of the guidelines listed in the Uniform Code of Fiduciary Conduct is to Control & Account for All Investment Expenses. To comply, a Fee Schedule of all of the individual managers is included in each of Capital Cities Quarterly Reports outlining the fees and the Median Peer Group Fees. The schedule will show that the plan does pay fairly. In every instance we are below the Median compared to our peers.

The Fee Discussion gives a more in depth look at where Managers rank. The Investment Management & Record Fees paid would be \$3.3 million, based on 12/31/10 market values. Of which, approximately \$275,000 would have been rebated back to the Plan in the form of revenue-sharing. \$1,868,637 in Administration Fees was collected by Great West during the calendar year 2010. Joe Bill recognized Jaimie Beisel from Great West helped give them a dollar amount because typically this is reported as basis points but they felt it would give the Committee better understanding. The actual fees paid to Capital Cities in 2010 were \$68,683.53. This includes extra expenses related to participant dinners and the Real Return search which was just for advertising since the actual search is included. Auditor Berry made note the Cap Cities rates haven't changed since they were hired in 2005.

IV. Old Business

Auditor Berry asked Jaimie Beisel to comment on Participant notifications, 4Q Newsletter, & Fee Holidays that address the changes. Jamie said the feedback was positive and the changes have been made smoothly.

BKD Agreed Upon Procedures Report

Kirke Willing gave an overview of BKD's, Independent Accountants' Report on Application of Agreed-Upon Procedures. The report focuses on how the State and Local governments in the Plan are doing from a procedural and administrative standpoint. Kirke did point out that two entities did miss a payment submission to Great-West in the calendar year and that omission has been corrected. Kirke also stated that going forward when looking at the administrative fees for the plan on an individual participant basis instead of as a whole. This will give a more accurate account of the fees for each participant.

V. New Business

No new business to address.

VI. Adjournment

There being no further business before the Committee the meeting was adjourned at 9:40 a.m. Next scheduled meeting is May 20, 2011.