



**MINUTES
PUBLIC MEETING
February 19, 2010
9:00 am
Auditor of State
Conference Room of the Auditor's Office**

I. Call to Order/Roll Call

Auditor Tim Berry called the meeting to order at 9:02am. Other Committee members present were Chris Ruhl (Governor's appointee), Jim Holden (Treasurer's appointee), Steffanie Rhinesmith, and Martha Lake. Also present were Kirke Willing, Deputy Auditor, Jaimie Beisel with Great-West Retirement Services (Third Party Administrator to the Plan), Mike Paton of Barnes & Thornburg (Counsel to the Committee and the Administrator), Janet Sweet and Tiffany Spudich with Capitol 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 per the amendment. Steffanie Rhinesmith moved to approve the November 21, 2009 Public Meeting minutes. Jim Holden seconded. The minutes were approved unanimously.

III. Management Consultant's Report

Investment Policy Statement Review

Tiffany Spudich provided the committee with a copy of the revised Investment Policy Statement (IPS) which was presented to the committee back in November. Per comments from that meeting the IPS now includes the interim and final guidelines set forth by AEGON specific to the Indiana Stable Value Funds Core Based Portfolio. The interim guidelines are in effect until July 1, 2011 and after that the final guidelines will be in effect.

Auditor Berry asked for a motion to approve the IPS. Jim Holden moved to accept the updated IPS, Chris Ruhl seconded. The IPS was approved unanimously. Motion was carried.

Performance & Evaluation Report

Janet Sweet indicated that Logan Circle Partners who is one of the managers of the Stable Value Fund has been purchased by Fortress Investment Group. Once they start the due diligence process they will update the committee with a thorough report. Fortress Investment Group is headquartered in New York, is a publicly traded company on the New York Stock Exchange and has been in existence for over 10 years with \$32 billion under management. Key executive management for Logan Circle will remain in Philadelphia. Logan is currently on Watch List status since Ryan Brist left as previously explained at the November meeting.

Auditor Berry asked if there should be concern about this change. Janet indicated that there is some concern until they see more stable ownership in the company. Unfortunately for Logan Circle they have always been in a challenging environment considering they started their own company essentially just before the fixed income market began fluctuating.

Market Overview Discussion

Janet Sweet led the Market Overview Discussion for 2009 to the Committee. In looking at Stock Market returns in the 218 year history 2008 was one of the worst years ever at a negative 37% return; however 2009 came in with a 26.5% positive return. It is important to note that equity has become more reasonably priced in 2009 as the trailing P/E jumped back up above its long run average for the year; 2008 had seen stocks undervalued. Also Fixed Income Credit spreads widened from record lows to record highs, but has since returned to a more normal range.

Concerning the current economic environment, in 2008 we experienced the worst recession in the post-war era with the largest global housing and credit bubble burst in history. Housing market woes have subtracted at least a percentage point from GDP in each of the last 3 years. Consumer confidence is deep in recession territory and the job market is the worst in a generation, piling on the woes from the housing and stock markets. In 2009 Growth has returned in the second half but employment likely won't revive until the second half of 2010. Recovery is underway, but it will be subdued with concerns of sustainability once the stimulus fades and the inventory cycle is complete. Inflation is also a very real threat, but it may be up to 5 years off due to no aggregate demand. Bottom line the recovery has begun and the challenge going forward will be to maintain it post-stimulus.

Lastly Janet discussed their Timeline of Projects for the Committee in 2010 with the Investment structure evaluation coming in the 2nd quarter meeting; review of asset allocations and target date portfolios in the 3rd quarter and IPS review in the 4th quarter. Steffanie Rhinesmith asked if they were considering looking at some sort of inflationary investment such as TIPS and Janet concurred that that is an investment component they are looking at.

Tiffany with Capital Cities continued on with the Considerations and Observations report for the period ending 12/31/09. As of December 31st the plan had just over \$781 million. BlackRock Large Cap Value performance has been trailing the last year to their peers. Cap Cities took a closer look and it could be due to their high quality focus which underweighted financial holdings about 10% versus the benchmark. Capital Cities will continue to monitor. Another fund being monitored is the Wells Fargo Advantage Capital Growth Fund. The last quarter they ranged favorably at the 43rd percentile of peers, but underperformed the index by 39 basis points.

Security selection within consumer staples and information technology sectors caused the slight trail in performance relative to the index.

Fee Analysis

Tiffany from Capital Cities discussed the Fee Analysis they put together for the committee. She reported that all of the funds in the plans have expense ratios below the median of their respective peers. The Indiana Retirement Funds are competitively priced at 40 to 42 basis points. In every instance, the Plans offer the least expensive share class available to participants. The approximate investment management fees paid would be \$3 million, based on 12/31/09 market values. Of which, approximately \$250,000 would have been provided to the Plan in the form of revenue-sharing, even though the plan is in the cheapest share classes there are certain circumstances that this will happen. Also, 1.7 million was paid in administrator's fees to Great West (0.26% of total individual Participant account balances up to an aggregate account balance of \$90,000) Comparative statistics show that the 0.26% is in line with what Capital Cities has seen in the industry based on a record keeping evaluation. Capital Cities fee as investment consultant is \$60,000 annually.

IV. Old Business

No old business to address

V. New Business

Approval of Annual Report

The Annual Report is presented to the State Board of Finance. Tim Berry asked for a motion to approve the Annual Report that was presented from Capital Cities. Steffanie Rhinesmith made the motion. Jim Holden seconded. The Annual Report was approved unanimously.

New Board Member

The newest board member that is appointed by the State Board of Finance was introduced by Tim Berry. Martha Lake is the Howard County Treasurer and a participant of the plan. Martha replaces Judy Rhodes.

BKD Agreed Upon Procedures Report

BKD, LLP submitted their Report on Agreed- Upon Procedures. The committee discussed briefly.

VI. Adjournment

There being no further business before the Committee the meeting was adjourned at 9:44 a.m. Next scheduled meeting is May 21, 2010 in the Government Center Conference Room 17