



**MINUTES
PUBLIC MEETING**

May 16, 2014

9:00 am

Indiana Government Center South- Conference Rm. 28

I. Call to Order/Roll Call

State Auditor Suzanne Crouch called the meeting to order at 9:00 a.m. Other Committee members present were Mike Frick, Deputy Treasurer, Lisa Acobert, IDOE, and Zac Jackson, SBA. Also present were Erin Sheridan, Deputy Auditor 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 Corey Waddell 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 meeting. Tiffany Spudich from Capital Cities detailed a few minor changes to the minutes. Mr. Frick moved to approve the minutes as amended. Mr. Jackson seconded. The minutes were approved unanimously.

III. Administrators Report

Auditor Crouch introduced Lisa Acobert as the newest member of the Committee. She is the Director of Finance and Business with the Department of Education. Auditor Crouch went on to discuss the Legislative Breakfast on March 6, 2014. There were more than 150 state employees who participated. Sixteen legislators signed up for Hoosier S.T.A.R.T. that morning as well. The purpose of the breakfast was to increase participants' awareness of the Plan and enroll new participants. Auditor Crouch praised Great West's award that was received at the 7th Annual Plan Choice Awards, specifically for the company's fee structures.

Jaimie Beisel explained to the Committee the recent marketing to participants in the local units of government throughout the State. Great West has a new team member focused on increasing more local units to adopt the Plan.

Auditor Crouch announced the upcoming Fall Dinners aimed at promoting and increasing Hoosier S.T.A.R.T. awareness and participation among state employees, as well as, providing tools for existing members to maximize their contributions. Satellite dinners will be through-out the following cities: Henryville, Evansville, Merrillville, and Fort Wayne.

IV. Investment Consultants Report

Market Review

Mr. Wiley began with a broad market overview. The unemployment rate continued to fall in the first quarter to a level of 6.7%; well below post-great recession high of 10%. Overseas' unemployment is a much larger concern. Rates in Europe average 12%, with Spain and Greece having rates higher than 25%. There were no signs of inflation during the first quarter. Ben Bernake left the Federal Reserve and was replaced by Janet Yellen. The Fed continued to "taper" its monthly bond purchases by \$10 billion per month. From a performance standpoint, fixed income performed well as interest rates fell during the first quarter. The Barclays Aggregate Index, the broad proxy for fixed income, rebounded and posted a positive 1.8% return. Turning to equities, global equity markets (with the exception of emerging markets) overall produced moderate positive returns to begin 2014 as the economy suffered in January, yet rallied at the end of the quarter. Over the last one year time period, all equities have posted double-digit returns with the exception of emerging markets.

Investment Policy Statement

Mr. Waddell delivered the Plan's Investment Policy Statement ("IPS"). The IPS is reviewed periodically by Capital Cities and the Committee. The IPS serves to formally document all of the strategic planning decisions and provides a roadmap for how those decisions are monitored on an ongoing basis. A few minor amendments were presented to the Committee. It was recommended that the Amended IPS be executed at the August meeting.

Great West

Mr. Waddell discussed that Great West has announced material organizational changes since March. As part of Bob Reynolds being named President, Great West merged the Putnam and Great West Defined Contribution teams. Soon thereafter, Great West acquired J.P. Morgan's Retirement Plan Services' business. As a result, Great West now stands as the second-largest retirement services provider by participants in the U.S. defined contribution market.

Target Date Funds Review

Ms. Spudich discussed the timeline of investment consultant projects in 2014. These projects are designed to assist the Committee in accomplishing their fiduciary duties with respect to the Plan. As part of the May 2014 agenda, the review of glide path structure/roll down of Target Date Funds is addressed. As part of the annual glide path review, it was recommended by Capital Cities that the Target Date Funds glide down one year along the existing glide path, which will provide a relatively smooth transition for participants. Ms. Crouch asked for a motion to that effect. Mr. Jackson moved, Mr. Frick seconded, the motion carried.

It was also discussed that the Committee has taken a paternalistic approach to the Target Date Funds' portfolio construction. In June of 2013, the portfolio construction was redesigned by expanding the opportunity set of the Target Date Funds to provide better overall diversification and downside protection, given the challenges of the current market environment. Additionally, the Target Date Funds are allocated among 12 different managers to better control business and strategy risk and are constructed taking into account the appropriate time horizon and market environment. An Alternatives' manager search was recommended within the coming year in order to further diversify manager and strategy risk. It was also discussed that the fees of the Target Date Funds are below that of "off the shelf" peers.

Watchlist and Manager Alert Updates

BlackRock Large Cap Value

The BlackRock Large Cap Value Fund was discussed. The Fund was placed on Watchlist status in the first quarter of 2012 given short-term underperformance, personnel changes, and changes to the investment process. Since the Fund was placed on Watchlist, the Fund's team, performance and asset levels have been closely monitored. Over the last year, no further changes have occurred warranting continued Watchlist status. In particular, Mr. Waddell mentioned the stability of the team, asset flows, and performance. Mr. Waddell recommended that BlackRock be removed from Watchlist status, but Capital Cities will continue to monitor the Fund. Auditor Crouch asked for a motion to remove Blackrock from Watchlist. Mr. Frick moved and Mr. Jackson seconded the motion. The motion passed.

Wells Fargo Advantage Capital Growth

The Wells Fargo Advantage Capital Growth Team had a personnel change over the last quarter. Senior Analyst Trevor Moreno left during the first quarter, replaced by Brandon Taylor. The Strategy continues to be managed by Tom Pence and Michael Smith. Mr. Waddell recommended that personnel continued to be monitored.

PIMCO Total Return/Unconstrained Bond

The PIMCO Total Return and Unconstrained Bond Funds were placed on Watchlist status in February of 2014 by the Committee. Mr. Waddell discussed that in January of 2014, Co-CIO Mohamed El-Erian announced his departure from the firm, creating a domino effect of organizational changes, warranting Watchlist. There has been one additional expected team departure since the Committee's last meeting—Ramin Toloui has been nominated by President Obama as Assistant Secretary for International Finance at the US Department of the Treasury. The team approach at PIMCO mitigates the impact of this change.

Mr. Waddell also discussed that the Total Return Fund underperformed the index and peers in the first quarter, but performance was explainable given PIMCO's yield curve positioning and the impact of Fed comments on fixed income during the quarter. The Unconstrained Fund posted a reasonable positive return for the quarter, meeting objectives. The Total Return and Unconstrained Funds have seen continued outflows, but at a rate lower than previous quarters. Overall firm assets under management have increased. PIMCO will continue to be closely monitored.

Logan Core Fixed Income

The Logan Core Fixed Income Strategy is an underlying component of the Indiana Stable Value Fund. Logan Circle conducted an internal compliance review in February of 2014. It was uncovered that Logan Circle's compliance system was improperly identifying auto loan ABS securities. The Indiana Deferred Compensation Plan guidelines prohibit Logan Circle from purchasing more than 5% in ABS securities. The error allowed the account to hold more than the 5% limit, and at the time of the review, the account was in excess of 5%. Logan reduced its exposure to ABS securities, reimbursed the Plan, and updated their compliance system.

Mid Cap Value Search/Perkins Mid Cap Value

Perkins Mid Cap Value was placed on Watchlist status in February of 2014 given changes to its portfolio construction process, performance issues and asset outflows in the Strategy. The Committee voted during the February meeting to survey the marketplace given concerns regarding Perkins. Ms. Spudich discussed the manger search process that was followed. A Broad Agency Announcement (“BAA”) was issued on March 5th for Mid Cap Value managers. The search was advertised in Pensions & Investments and the Indy Star. Capital Cities also notified nearly 150 managers via email of the search. A total of 22 responses were received. Four managers were interviewed. Two finalists, Touchstone Mid Cap Value and MFS Mid Cap Value, were chosen and was recommended to be weighed carefully against Perkins Mid Cap Value. An overview of the finalists relative to Perkins Mid Cap Value was illustrated. Ultimately, it was recommended Perkins remain on heighten Watchlist status. Capital Cities will continue to closely monitor performance, asset flows, and the portfolio construction of the Perkins Mid Cap Value Fund. If the Fund continues its relative underperformance or material asset outflows occur, the Mid Cap Value search will be re-evaluated and a replacement may ensue.

IV. Old Business

None.

V. New Business

None.

VI. Adjournment

There being no further business before the Committee the meeting was adjourned at 9:47 a.m. The next meeting is August 15th, 2014.