



**MINUTES
PUBLIC MEETING**

August 15, 2014

9:00 am

Indiana Government Center South- Conference Rm. 4 & 5

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 Richard Mourdock, Treasurer; Mike Frick, Deputy Treasurer; Lisa Acobert, IDOE; Micah Vincent, OMB; and, Zac Jackson, SBA. Also present were Erin Sheridan, Deputy Auditor of State; Maegan Otten with the Auditor of State's Office; Jaimie Beisel with Great-West Financial (Third Party Administrator to the Plan); Mike Paton of Barnes & Thornburg (Counsel to the Committee and the Administrator); and, Tiffany Spudich, Tarek Zeni, and Corey Waddell with Capital Cities, L.L.C. (Investment Consultants to the Committee).

II. Reading of the Minutes

Auditor Crouch asked for a motion to approve the minutes from the May 16, 2014 meeting. Mr. Frick moved to approve the minutes. Ms. Acobert seconded. The minutes were approved unanimously.

III. Administrators Report

Auditor Crouch introduced Micah Vincent as the newest member of the Committee. Mr. Vincent serves as the General Counsel and Chief of Staff of the Office of Management and Budget.

Erin Sheridan discussed 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. Ms. Sheridan indicated that the Auditor's Office has received a record number of RSVPs to the dinners from participants.

IV. Investment Consultant Report

Market Review

Mr. Waddell discussed that U.S. equities continued to advance in the second quarter despite two downward revisions to first quarter GDP numbers. The last of which moved the 1Q14 down to -2.9%, which was the largest contraction since the first quarter of 2009. Most investors were writing off the revision as a side effect of the "polar vortex" and harsh winter. Many investors were instead focusing on

the job creation in the U.S. 200,000 jobs have been created each of the last 5 months going back to January. Large Cap stocks performed the strongest during the second quarter at 5.2%. International equities continued to trail their U.S. counterparts. The MSCI EAFE, a developed market index, was up 4.1%, but was dragged down by the Eurozone which is continuing to have problems with unemployment. Region-wide unemployment is 11.6%, but as high as 27% in Greece. Nearly 25% of young people (ages 20-30) are also unemployed. Emerging Markets posted a solid gain of 6.7% after some turbulent quarters. Turning to fixed income, there were positive results across all styles in the second quarter. The 10-year U.S. Treasury yield declined 20 basis points during the second quarter which was somewhat unexpected. Furthermore, the 30-year yield declined 22 basis points while the 2-year increased by 3 basis points. As a result, longer-term bonds outperformed shorter-term ones due to the flattening yield curve.

Manager and Watchlist Updates

Manager Updates

Ms. Spudich discussed personnel changes among three investment managers. First, Rob Salvin was added to the Putnam Capital Spectrum team as a resource to David Glancy (Portfolio Manager of the Capital Spectrum Fund). Second, Osterweis announced that Zachary Perry, a portfolio manager on the team, decided to leave the firm to pursue his own company/fund. Concurrent with the change, Osterweis named Nael Fakhry (previously a senior analyst with firm) as a portfolio manager. Third, Capital Group appointed Lawrence Kymisis to replace Rob Lovelace as one of the nine portfolio managers on the American Funds EuroPacific Growth Fund. Both Osterweis and American Funds utilize a team-based approach which mitigates concern regarding the personnel changes.

It is also important to note that Putnam Capital Spectrum and Osterweis Fund are underlying components of the Target Date Funds offered in the Hoosier S.T.A.R.T. Plan and are not offered to participants on a stand-alone basis.

PIMCO Total Return/Unconstrained Bond Watchlist Update

The PIMCO Total Return and Unconstrained Bond Funds were placed on Watchlist status in February of 2014 by the Committee. Ms. Spudich 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 material departure since the Committee's last meeting—Jeremie Banet with the Real Return team. The team-based nature and deep resources of PIMCO's investment process mitigate concern. On the other hand, Paul McCulley has returned to the firm as Managing Director and Chief Economist, which is viewed positively. The Total Return Fund outperformed the index and peers in the second quarter, while the Unconstrained Bond Fund posted a strong positive return. The Total Return and Unconstrained Funds have seen continued modest outflows; however, overall firm assets under management have increased. PIMCO will continue to be closely monitored.

Perkins Mid Cap Value Watchlist Update

Ms. Spudich reminded the Committee that the Perkins Mid Cap Value Fund was placed on Watchlist status given recent portfolio construction changes. Perkins has also experienced material outflows in the Strategy. Current assets stand at \$8.8 billion. During the second quarter, the Fund ranked in the top half of peers, but trailed its index. Underperformance relative to the index was driven by an underweight position to utilities and REITs. The Fund will continue to be closely monitored on heightened Watchlist status.

Neuberger Berman Global Thematic Opportunities Fund Watchlist

Mr. Zeni discussed the Neuberger Berman Global Thematic Opportunities Fund. This Fund is an underlying component of the Target Date Funds offered in the Hoosier S.T.A.R.T. Plan and is not offered to participants on a stand-alone basis. The Fund is an active, unconstrained global equity fund. It serves the purpose of providing opportunistic exposure to global equity markets, particularly emerging markets. The Fund's short-term, three-year performance in particular has lagged its peers and the benchmark. Underperformance has largely occurred due to negative stock selection and overweighting in emerging markets, exposure to inflation-related securities (e.g., gold), and cash holdings. As a result of the underperformance, the Fund has also experienced material outflows over time. Assets currently stand at \$345 million. These factors combined resulted in Capital Cities' recommendation to place the Fund on Watchlist status. However, Mr. Zeni discussed that Capital Cities favorably views the organization, length of time the existing portfolio managers have been together, and the deep global resources of the firm. The Fund's investment philosophy complements the other existing equity managers in the custom Target Date Portfolios well.

Mr. Jackson moved to place Neuberger Berman on Watchlist. Mr. Vincent seconded.

Small and Small/Mid Cap Broad Manager Searches and IronBridge SMID Update

During the February meeting, the Committee voted to survey the Small and Small/Mid Cap Equity marketplace in light of underperformance exhibited by the Plan's Small/Mid Cap Equity manager, IronBridge. Mr. Zeni discussed that while the performance of the IronBridge SMID Fund has lagged its peers and the index over the last three years, performance is in-line with expectations given the Strategy's high quality focus and process.

Ms. Spudich outlined that a Broad Agency Announcement ("BAA") was issued on March 5th for Small and Small/Mid Cap Equity 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 63 responses were received. Capital Cities conducted interviews for seven different strategies. Two finalists, Diamond Hill Small-Mid Cap Equity and Wellington Small Cap 2000, were chosen and were recommended to be carefully weighed against IronBridge SMID Cap Equity.

The Committee elected to retain IronBridge at this time, but Capital Cities will continue to closely monitor performance. If the Fund continues its relative underperformance or any qualitative concerns occur, the Small and Small/Mid Cap Broad Equity search will be re-evaluated and a replacement may ensue.

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. Mr. Frick moved to approve the Investment Policy Statement as amended. Mr. Jackson seconded.

Fidelity Fee Agreement

Ms. Spudich discussed that Fidelity requested an updated Plan Expense Reimbursement Agreement. The updated agreement does not impact fees. Mr. Frick moved to adopt the agreement with Fidelity. Mr. Jackson seconded.

V. Old Business

None.

VI. New Business

None.

VI. Adjournment

There being no further business before the Committee the meeting was adjourned at 9:46. The next meeting is November 14th, 2014.