



**MINUTES  
PUBLIC MEETING  
August 16, 2013  
9:00 am  
State Auditor's Conference Room**

**I. Call to Order/Roll Call**

Interim State Auditor Kirke Willing called the meeting to order at 9:06 am. Other committee members present were, Mike Frick, Deputy Treasurer, Martha Lake and Steffanie Rhinesmith. Also present were 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 and with Capital Cities (Investments Consultants to the Committee) and Erin Sheridan with the Auditor of State's Office.

**II. Reading of the Minutes**

Kirke Willing asked for a motion to approve the minutes from the May 17, 2013, 2013 meeting. Mike Frick moved to approve the minutes. Steffanie Rhinesmith seconded. The minutes were approved unanimously.

**III. Administrators Report**

Auditor Willing explained to the committee the recent changes in the State Auditor's office. This past Wednesday August 14, 2013, Tim Berry resigned as State Auditor to serve as Chairman of the Indiana GOP. Kirke Willing was appointed by Governor Mike Pence to serve as interim Auditor. It is expected that Brownsburg native, Dwayne Sawyer will be sworn into office this coming Monday, August 19<sup>th</sup> and will serve the remainder of Tim Berry's term.

The Annual Fall Dinner hosted by Hoosier S.T.A.R.T. will still move forward as planned. The Indianapolis event is on September 17, 2013 and Chris Hogan from the Dave Ramsey Group will be the featured speaker. The theme this year is: "Retirement...Mission Impossible? not with Hoosier S.T.A.R.T." Registration opened on July 25, 2013 and over 200 Participants have already registered. There will also be two simultaneous workshops offered before the dinner. Registrants may select one of the two Workshops; Naked Retirement with Robert Laura or Pete the Planner will present 60 Minutes to Change.

The satellite dinners will be in Ft. Wayne, Merrillville, Henryville, & Evansville with a live presentation from Pete The planner who will present "Mock Retirement".

#### **IV. Management Consultants Report**

##### **Market Review**

Tarek Zeni, Associate Consultant & Analyst was introduced as their newest employee by Tiffany Spudich with Capital Cities Tiffany then began the meeting with Market overview. The Federal Reserve roiled global financial markets as comments regarding the tapering of bond purchases drove equity and fixed income markets down late in the second quarter and sent bond yields soaring. Strong gains early in the quarter kept domestic in positive territory (S&P 500: + 2.91%). Results were fairly consistent across much of the capitalization spectrum. Value led growth among large cap stocks; however, the roles were reversed in small and mid-cap equity. Foreign equities trailed their domestic counterparts over the last quarter. Developed Markets were down 0.98% while emerging markets declined 7.95%. Tiffany explained further that over the last one year time period, both domestic and developed foreign equities have posted strong returns turning to fixed income, bond markets were soundly beaten in the latter half of the quarter by the Fed news. All fixed income styles were in the red. The Barclays Aggravate Index suffered its worst loss in nearly a decade at -2.32%. Returns have been mixed over the last one year time period. High Yield posted the strong performance at a +9.49% return.

##### **Investment Structure Overview**

Capital Cities presented the restated Investment Structure Overview. The ISP should be reviewed periodically and the latest amendment was in November 2011. No changes were suggested and the Committee can move to approve at the November 15, 2013 meeting.

##### **Target Date & Stable Value Fund Review**

Capital Cities presented a presentation to review the glidepath and upcoming roll-down of Target Date Option. Also, a review has also been completed of the Indiana stable value Fund and the current stable value market environment.

Given the timing of this annual glidepath review, it is recommended that the Funds glide down one year along the existing glidepath (yellow triangles to blue circles) which will provide a relatively smooth transition.

Stable Value Funds offer participants intermediate term returns and liquidity (subject to plan rules) without market value risk or other penalty. This is typically accomplished through wrap contract or investment contract that guarantees the payment of plan-related benefits at book value (cost plus accrued interest) which enables the entire investment to be carried at its book value. The Indiana Stable value is properly designed to provide participants with a capital preservation option. Capital cities recommend continuing to evaluate the Indiana Stable value Fund given the changing environment. Look to potentially diversify the underlying strategies and wrap agreements in the future. The Indiana Stable Value's performance and risk in in line with stable value peers and outperforms money market funds with similar risk.

##### **Performance & Evaluation Report**

Tiffany Spudich from Capital Cities updated the Committee on Considerations & Observations. Tiffany also offered a more detailed look at the "White label" options which includes Indiana Inflation-Linked Bond Fund, Indiana Flexible Bond Fund and Indiana Stable Value Fund.

## **Fixed Income Supplement**

Fixed income suffered dramatically from a sharp rise in the interest rates. Following comments by Fed in May considering tapering the bond program. The yield on the 10 year US Treasury rose from a low of 1.61% on May 1<sup>st</sup> to High of 2.66% on June 24<sup>th</sup>, the sharpest rise in the 10-Year US Treasury rate since 2Q2009. Investors reacted quickly, withdrawing roughly \$60 billion from the bond mutual funds in June, purportedly the largest redemption since 1961. Most fixed income sectors experiences widening spreads, resulting the negative returns for investors.

During 2Q13, fixed income managers had nowhere to hide. All areas of the market were negatively impacted by the dramatic technical in the market, regardless of duration, credit quality and region. During the last year, many areas of the fixed income market, including the Barclay Agg. Index, were negative. INDC active & broad managers, however, were able to add value through tactical positioning.

### **IV. Old Business**

### **V. New Business**

Mike Paton, Counsel to the Committee and the Administrator mentioned the 401(a) plan, has to be approved by the IRS from time to time. It is what is known as a “qualified plan.” All qualified plans must be submitted to the IRS every five years for review and approval. These are known as five year amendment cycles. The five years cycles are known as A, B, C, D and E. Which cycle you are depends on the last digit of your EIN number; however, all government plans are Cycle C, which means they are supposed to be filed this year (technically before 1/31/14). The IRS announced that they would allow any government employer to use Cycle E instead, which would delay the filing requirement until 1/31/16. We are recommending to our government plan clients that they take advantage of this delay. It postpones the expense and there is no real advantage to being an early filer—we filed in Cycle C last time and it took the IRS years to rule on our filing because they were trying to resolve issues they were having with all government plans.

### **VI. Adjournment**

There being no further business before the Committee the meeting was adjourned at 9:40 a.m. Next scheduled meeting will be on November 15, 2013.