



**MINUTES  
PUBLIC MEETING  
August 17, 2012  
9:00 am  
AOS Conference Room Suite 240**

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

Auditor Tim Berry called the meeting to order at 9:01 am. Other committee members present were, Jon Vanator, Deputy Budget Director, Mike Frick, Chief Deputy Treasurer, Stefanie Rhinesmith and Martha Lake. Also present were Kirke Willing; Deputy Auditor, Jaimie Beisel & 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), Janet Sweet and Tiffany Spudich 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 June 18, 2012 meeting. Stefanie Rhinesmith moved to approve the minutes. Mike Frick seconded. The minutes were approved unanimously.

**III. Administrators Report**

Auditor Berry passed out copies of the official invitations for the educational fall dinner. Reminding the committee that Jean Chatzkey is the key note speaker but adding that this year we will have break-out sessions. One session will be about the investment portfolio and the other on Long Term Care Insurance. The Indianapolis dinner is on October 11, 2012.

**IV. Management Consultants Report**

**Market Overview**

Tiffany Spudich gave an overview of the Market by explaining that after a very strong six month period, equity markets struggled in the second Q. US equities posted quarterly declines in the low-mid single digits. Large Caps and Small Caps were narrowly separated (S&P500: -2.8%, R2000: -3.5%), while Mid Caps turned in the worst results (-4.4%) Within fixed income markets, Treasuries posted the strongest returns (+2.8%). The Barclays Aggregate index had solid gains (+2.1%) on the back of strong positive results in the government sector.

At the end of the 4<sup>th</sup> Q there was \$845,601,891 in the Plan. There were a lot of changes in the Watchlist

stop lights. BlackRock Large Cap Value stop light was changed and will be elaborated upon in the last paragraph of this section.

Other changes included, Wells Fargo Advantage Capital Growth was added to the Watchlist due to changes in personal, performance and product. They will continue to be monitored by Capital Cities. The Ironbridge SMID stoplight was changed (Short term Performance) to yellow due to their high quality performance focus which can be attributed to highly leveraged companies out performing those utilizing less financial leverage. Also changed was the Fidelity Diversified International which was changed from yellow to green due to the improvements made in the past 3 years. Artio International Equity II was voted by the committee to be replaced during the last meeting and will be so on September 17 by American Fund Specific.

Indiana Stable Value Fund's stop light (qualitative review) was changed too yellow. SEI recently announced plans to terminate the SEI Stable Asset Fund effective November 30<sup>th</sup>. Capital Cities is currently working with Logan Circle to replace the SEI strategy in the Stable Value Fund with a money market fund, while the overview structure of the fund is reviewed. An update will be reported at the next meeting.

Janet Sweet continued with the overview with a more detailed explanation, referencing to the Memorandum, about the change in stoplight for BlackRock Large Cap Value which has already been on Watchlist status due to short-term performance. Recently, BlackRock has announced changes to the Fund, including the retirement of PM Bob Doll and improvements to the Philosophy/Process. While generally viewed positive, the numerous changes still warrant continued Watchlist Status and careful monitoring. Capital Cities recommends giving them time to demonstrate their abilities considering the numerous and significant changes. The team has consistently applied the same philosophy/process since inception.

### **Target Date Funds Review**

During the June 18<sup>th</sup> meeting, the Committee voted to maintain the existing line-up for participants, while replacing Artio International Equity II with the American Funds EuroPacific Growth within the Tier II Core Options. The transition to EUPAC Fund is scheduled to occur on September 17<sup>th</sup>. The Committee also elected to conduct the Unconstrained Fixed Income Search for a new option to be included in the Tier II Specialty Options and as a component of the Tier I Lifestyle Funds.

Further, the Committee agreed to explore Unconstrained and Alternative strategies for possible inclusion within the custom Target Date Options. The search was advertised and over 125 managers notified by email, 11 firms notified by a phone call and the search was posted on AOS website.

The search evaluations are being finalized by Capital Cities and the committee agreed to meet prior to the scheduled November meeting to discuss the Unconstrained Fixed Income Manager Search. That date will be September 21<sup>st</sup> at 9:00

### **Target Date Funds Construction Discussion:**

Tiffany lead the discussion explaining that the Target Date Options are currently constructed utilizing traditional asset classes thus achieving the objective of providing a pre-diversified option that reflects the appropriate allocation for a given time horizon. However, consideration should be given to including styles or strategies that can provide further diversification benefits. Types of Passive & Active Equity Management range from Beta Driven to Alpha Driven. Capital Cities recommends combining passive and active management within the custom Target Date Funds to provide downside protection and upside

participation within a portfolio construction. Concerning the types of fixed income management strategies and given the current interest rate environment, Capital Cities believe there is limited role for beta-driven strategies and recommends considerations of unconstrained and possibly alternative management strategies as part of the Target Date Funds. Adding potential supplements to Target Date Funds would be more like institutional defined benefit portfolios and there would be potential for participant confusion so increased monitoring would be necessary. Further discussion regarding the merits and consequences of each potential equity construction across the Glidepath would be advised.

2 Options were presented for potential Equity Construction across the glidepath and there was much discussion about the merits and consequences of each approach. Tim Berry voiced concerns about allocations and fees. Tiffany explained Option #2 increases the custom Target date Fund fees by 11 to 27 basis points where Option #1 fees will be less than or in line with current fees.

The current and proposed investment structures include traditional stocks and bonds; however, consideration could be given to allocating a 10-20% allocation to Alternative Investments through-out the glidepath. Possibly conducting a liquid Alternative Investment manager search if necessary.

#### **Target Date Fund Glidepath Discussion:**

The Committee made a decision in 2010 to move the Glidepath, which reduced equity exposure from 90% to 80% at the early stages and 40% to 30% at retirement. Further, the Plans began to offer target date funds in five-year increments in order to better meet each participant unique risk/reward profiles. The current glidepath begins with target investor age of 65 (Retirement Fund) given the timing of this annual glidepath review, it is recommended that the Funds glide-down one year along the existing glidepath and a 2055 Fund is added which would target an investor of 22 years old. If this is elected Great West custom fund administrative fees would be waived for the 2055 Fund.

At the conclusion of the meeting Auditor Berry asked for a motion to add the 2055 Fund and One year Glide path. Martha Lake moved to make mentioned changes. Mike Frick seconded. The change was approved unanimously.

Open discussions with the committee were elaborate with the main focus being participants are insured ease and understanding along with maintaining competitiveness by comparison to modest fees. As conversation swayed in the direction of Option #2, Capital Cities was asked their opinion and Tiffany agreed Option #2 would be the recommend choice.

Auditor Berry asked for a motion. Mike Frick moved to select Option #2. Stefanie Rhinesmith seconded. The change was approved unanimously.

An immediate search will be conducted and those results will be presented at the November 17<sup>th</sup> meeting.

#### **IV. Old Business**

#### **V. New Business**

No new business was reported.

#### **VI. Adjournment**

There being no further business before the Committee the meeting was adjourned at 10:07 a.m. Next scheduled meeting will be on September 21, 2012