



**MINUTES
PUBLIC MEETING
August 20, 2010
9:00 am
Indiana Government Center South
Conference Room 18**

I. Call to Order/Roll Call

Deputy Auditor Kirke Willing called the meeting to order at 9:03am. Committee members present were Auditor Tim Berry (arrived a few minutes late), Adam Horst (Governor's new-appointee), Jim Holden (Treasurer's appointee), Steffanie Rhinesmith, and Martha Lake. Also present were Kirke Willing, Deputy Auditor, and Jaimie Beisel, Sharri Condon, John Vetroczyk & George Foster with Great-West Retirement Services (Third Party Administrator to the Plan), Mike Paton of Barnes & Thornburg (Counsel to the Committee and the Administrator), Joe Bill Wiley and Amanda Black with Capital Cities (Investments Consultants to the Committee) and Erin Sheridan with the Auditor of State's Office.

II. Reading of the Minutes

After introducing the governor's newly appointed committee member Adam Horst who replaces Chris Ruhl, Kirke Willing asked for a motion to approve the minutes from the May 21, 2010 meeting. Stephanie Rhinesmith moved to approve the May 21, 2010 meeting minutes. Adam Horst seconded. The minutes were approved unanimously.

III. Management Consultant's Report

Performance & Evaluation

Joe Bill Wiley gave a quick overview of the 2nd Quarter of the market; period ending June 30, 2010. The Quarter started out in April with a cautiously optimistic market with slightly positive returns. But in the months of May and June the expiration of the first homebuyer credit, oil spill in the gulf and the credit crisis in Greece, combined to create a jittery investment environment which resulted in negative returns in those months. Turning to Fixed Income, most benchmarks largely earned low single digit results during the Quarter with Treasuries posting the strongest

return at 4.68%, while High Yield produced the only negative return -0.11%. Despite the slightly negative Quarter, High Yield continued to post the strongest returns within fixed income with a 26.77% return over last year.

Amanda Black gave a synopsis of the Plan Summary and brought to the committee's attention the ranking change of BlackRock Large Cap Value. Changing from green light status to now yellow light as their Short Term performance has been poor recently due to their tendency to underrate financials. Although explainable it is worth paying closer attention.

Amanda moved on to address the ongoing review of Wells Fargo Advantage Capitol Growth Large Cap Fund as they have had a rough year and a half finishing in the 73rd percentile and 115 basis points off their benchmark. They had one single stock holding that underperformed dramatically in the last quarter bring returns down. Wells Fargo has recently hired another health care analyst~~is~~ which should be viewed as good news. Capital Cities continues to monitor short and long-term performance (last three and five year time periods), which rank at the 88th and 85th percentile of peers respectively. On a more positive note, Amanda did mention that in the current quarter Wells has been outperforming their benchmark.

Lastly, Amanda wanted to point out the PIMCO Total Return, although Cap Cities is not concerned, it is however a popular choice among participants so it is worth mentioning that over long time periods this fund ranks at the top of its peer group. They did have a poor Quarter ranking in the 75% of its peers but still had a 2.75% positive return for the Quarter. No real concerns, but Amanda felt it was worth mentioning.

Logan Watchlist Memo

Logan has been on watch list since 2007, when the firm (then Delaware) entered into discussions to start a new firm (Logan). Since that time of the change of ownership structure, Logan has remained on Watchlist status due to underperformance concerns in 2008 and the departure of lead PM, Ryan Brist, in 2009. Additionally in April of this year Steve Cianci (head of structured products) left the firm to join Aberdeen Asset Management in a similar role. Capital Cities is not overly concerned with Steve's departure due to the fact that it was mutually desired as well as the fact that Andy Kronschnabel, who has taken over management of the assets and performed well in that role. It is also less of a concern since our portfolio being managed is very conservative.

Over the last several quarters, Capitol Cities has closely monitored Logan and has seen drastic improvements with the return of liquidity to the fixed income market. With regards to assets under management, the improvement in performance has helped assets to slightly grow to \$12 billion, compared to \$11 billion one year ago. From a participant perspective the Stable Value Fund is doing very well. The crediting rate is slowly improving and the Market to Book ratio is now over 100% which is very positive.

Capital Cities recommendation is to retain Logan (Core Plus) as an underlying manager in the Indiana Stable Value Fund and continue Watchlist status. The impact of the changes is somewhat mitigated by the diversification in underlying managers. (45% to Logan Core Plus, 45% to

Fidelity MIP II, and 10% to SEI Stable Asset Fund)

Custom Funds

During the May meeting, the committee requested further information regarding custom funds so Capitol Cities prepared a presentation that addresses creating custom funds and simplifying the investment structure for participants which Amanda also presented.

Amanda wanted to reflect on the current Investment Structure which consists of options divided into 3 tiers: Lifestyle, Core, and Specialty/Legacy. Although this traditional structure covers the main components needed there is a new trend being recognized in the DC space is that other plans are taking a more paternalistic approach. In other words, simplifying the investment structure by offering a custom multi-manager investment which blends funds and managers that complement each other.

If the committee would like to consider the custom fund option then Cap Cities could make this happen fairly quickly but they do suggest taking a step back and looking at different managers to blend. Great West would need time to implement and would charge a fee; however, the plan is allotted two events per year at no charge that require participant communication. Jamie Beisel from Great West suggest the two means of notice be a traditional letter and a place in the newsletter. Amanda commented that this is a chance to lower fees yet wanted to make clear that Cap Cities believes the current plan is good and it's their job to provide information about trends.

The committee presented a few questions and concerns: How participants are already splitting their investments? What has the reaction of participants been in the past to changes or dropped options? What will this cost? Is there daily access?

Jaimie from Great West said his experience has shown that not many participants are doing their due diligence and prefer a simpler approach. Although they receive a few phone calls when there are changes rarely are they excessive.

It was agreed upon that a decision would not be made and that the committee would like feedback. To achieve this more information will be shared with participants who attend the Annual Hoosier S.T.A.R.T. Retirement Dinner this fall. More information below under V. New Business.

Real Return Search

In response to the last Deferred Compensation meeting a Real Return Manager was completed. This is part of the process to add or replace a new investment option or new asset class. An RFP was issued to firms via e-mail and an ad was placed in Publication Pension & Investments. Capital Cities received 30 responses.

Seven firms were semi finalists and three finalists. The candidates were interviewed by Capital Cities. A peer review and an investment committee were responsible for reviewing the semi-finalists and finalists to then be presented today for the committee to review and make their determination.

The finalists were Black Rock, PIMCO, & Fidelity. Black Rock represents a true TIPS fund at 100% invested in inflation protected bonds. PIMCO is mainly a TIPS fund with 80% in inflation protected bonds and the other 20% invested in other fixed income products. Lastly, Fidelity allocates funds among four categories; inflation protected debt securities, floating rate loans, commodity-linked notes and REIT's. The candidate grid indicated that each organization fees were in line with the 76 bps average and all are active managers. Amanda indicated that each firm's investment philosophy was in line with their expectations. A closer look at the three finalists shows that their strategies will lead to different performance patterns. Fidelity will be more volatile in down years like 2008 while Black Rock will be less volatile in years like 2008 due to their true TIPS structure.

When asked who Capitol Cites would recommend of the 3 finalists, both Joe Bill and Amanda agreed Fidelity wasn't their favorite option however they differed on their opinions. Amanda preferred the PIMCO Fund. Joe Bill leans toward the Black Rock. Both agreed that looking at it from a participant's perspective most will look to the Real Return fund for stability and not large return swings in volatile markets.

Stephanie Rhinesmith asked if it was possible to blend these funds/managers? Amanda answered this was definitely a possibility but would prefer to come back to the committee with more information about blending. The committee asked Capital Cities to come back to the committee in September with a blended version for the committee to discuss along with the 3 finalists presented. The committee also asked the information be prepared in time to be included with the Custom Target Date Funds.

IV. Old Business

No old business to address

V. New Business

The Annual Hoosier S.T.A.R.T. educational dinners this year are themed "Real Funds. Real People. Real Important." And will focus on meeting the real faces behind your investments. All participants are invited. The dinner will be in Indianapolis Oct. 14, Henryville, Oct. 6, Evansville, Oct. 7, Merrillville, Oct. 20th and Ft. Wayne Oct. 21. More information can be found at www.hoosierstart.in.gov

VI. Adjournment

There being no further business before the Committee the meeting was adjourned at 9:59 a.m. Next scheduled meeting is September 24, 2010 in the Government Center Conference Room 18.