



**MINUTES
PUBLIC MEETING
August 20, 2015
9:00 am
IGCS Conference Room D**

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 Lisa Acobert, IDOE; Zac Jackson, SBA; Dan Bastin, Morgan County Auditor; and, Mike Frick, Deputy Treasurer. Also present were Erin Sheridan, Deputy Auditor of State and Maggie Johnson with the Auditor of State's Office; Jaimie Beisel with Empower (Third Party Administrator to the Plan); Mike Paton of Barnes & Thornburg (Counsel to the Committee and the Administrator); and, Corey Waddell and Tiffany Spudich with Capital Cities, L.L.C. (Investment Consultants to the Committee).

II. Live-Streaming Disclaimer

The meeting was live-streamed. Ms. Johnson provided the live-streaming disclaimer.

III. Reading of the Minutes

Auditor Crouch asked for a motion to approve the minutes from the May 22, 2014 meeting. Mr. Frick moved to approve the minutes. Ms. Acobert seconded. The minutes were approved unanimously.

IV. Administrators Report

Auditor Crouch introduced a new Committee member, Dan Bastin, Morgan County Auditor. Dan will be replacing Micah Vincent on the Committee. Auditor Crouch also provided an update on the October 20th education dinner. There were 566 registered attendees at the time. Auditor Crouch also invited all of the Committee members to attend the upcoming NAGDCA conference that will take place in Indianapolis. Jaimie Beisel from Empower discussed upcoming targeted communications for participants.

V. Investment Consultant Report

Market Review

Mr. Waddell highlighted the market environment for the second quarter of 2015. Global markets began the second quarter at a fast pace. However, most of the gains were lost due to growing concerns in many regions across the globe. Specifically the S&P 500 was up +0.3% and the Barclays Aggregate Index was

down -1.7%.

Mr. Waddell noted the S&P 500 recorded its 10th consecutive quarterly advance. Furthermore, within equities the best places to be were U.S. Small Cap Growth Stocks which returned +2.0%. Developed International equities were also muted returning +0.6% and slightly outpaced their U.S. counterparts. Emerging Market equities were also positive at +0.8%.

Turning to fixed income, Mr. Waddell noted that yields rose across all durations for the quarter. In the rising rate environment, there were negative results in the fixed income market. The Barclays Aggregate Index was negative for the period. High Yield bonds were the lone bright spot as the sector's yield advantage was able to offset the negative effects of spread widening.

Mr. Waddell then discussed the 2Q performance report. He noted that the Plans ended the quarter at a total value of \$1,042,793,445. Mr. Waddell then reminded the Committee members how to read and analyze the performance charts for each of the options within the Plans. Afterwards, Ms. Spudich provided brief commentary on each of the Plans' options.

Manager Updates

Ironbridge SMID

Ms. Spudich provided a Watchlist update on the Ironbridge SMID Cap Fund. She reminded the Committee that the Fund was placed on Watchlist status during the May 2015 meeting after experiencing asset outflows and underperformance. She reminded the Committee that the Fund provides participants with active exposure to small- and mid-cap stocks. The Fund represented \$29.5 million, or 2.8% of Plan assets, as of June 30, 2015. The Fund's three- and five-year performance has lagged its peers and the benchmark. As a result, there have been asset outflows from the Fund. Underperformance has primarily occurred due to the Fund's high quality focus during a period where low quality and leveraged companies have been rewarded. Despite these issues, the Fund enjoys a tenured portfolio team and a favorable expense ratio relative to peers. During the quarter, the Fund outperformed its benchmark due to favorable security selection within the healthcare, consumer discretionary, and industrial sectors. The Fund experienced net outflows of \$115 million during the quarter. Capital Cities will continue monitoring the Fund and look for stable asset flows and improved performance.

PIMCO Total Return/Unconstrained Bond

Ms. Spudich provided an update on PIMCO. Ms. Spudich reminded the Committee that PIMCO presented at a special Committee meeting on March 19, 2015 given the recent changes at the firm.

The PIMCO Total Return and Unconstrained Bond Funds were placed on Watchlist status in February of 2014 by the Committee. The PIMCO Unconstrained Bond Fund serves as an underlying component of the Indiana Flexible Bond Fund, while the PIMCO Total Return Fund is offered to participants on a stand-alone basis. Ms. Spudich provided a review of the situation. It was 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. Bill Gross, Founder and Managing Director of PIMCO, submitted his resignation on September 26th. He immediately left the firm and accepted a position at Janus Capital. Despite the personnel departures, PIMCO continues to be well-resourced with highly regarded investment professionals.

Ms. Spudich also shared a regulatory update that Capital Cities received from PIMCO. PIMCO received

a Wells Notice from the staff of the U.S. Securities and Exchange Commission that relates to the ETF version of the PIMCO Total Return Fund. She noted that Capital Cities has no immediate concerns regarding this update, although they felt it was prudent to share the news given PIMCO is on Watchlist status within the Plans. Specifically, Capital Cities conducted a due diligence call with PIMCO regarding the Wells Notice the firm received from the SEC in relation to the PIMCO Total Return ETF. In summary, the SEC began an investigation over two years ago regarding the pricing of smaller sized positions the ETF held in non-agency mortgage-backed securities during the ETF's inception on February 29, 2012 through June 30, 2012. It is important to note that PIMCO claims its conduct was appropriate and that its valuation policies are in keeping with industry standards. The Wells Notice indicates that the SEC's investigation is over. As a result, the SEC will present its findings to PIMCO and allow the firm to comment on the matter. This process could take a year or longer to complete.

Capital Cities does not recommend any action at this time. No wrongdoing or lawsuit has been presented with regards to this investigation. Additionally, the Plans do not have exposure to the PIMCO Total Return ETF which further mitigates the concern. Nevertheless, Capital Cities will continue to closely monitor PIMCO on Watchlist status.

BlackRock Large Cap Value

Ms. Spudich noted that effective September 1st, the "K" share class of the BlackRock Large Cap Value Fund would be renamed "Institutional". There are no other changes to the Fund including the ticker symbol, CUSIP, or expense ratio.

Perkins Mid Cap Value

Mr. Waddell reminded the Committee that during the May meeting that the Committee voted to replace the Perkins Mid Cap Value Fund with the MFS Mid Cap Value Fund. The Perkins Mid Cap Value Fund had been placed on Watchlist status in February 2014 given qualitative and quantitative concerns. Furthermore, since being placed on Watchlist, the Fund has experienced material asset outflows and most recently a key personnel change. The Fund replacement will occur on August 21st.

Indiana Target Date Funds

Mr. Waddell reminded the Committee that during the November 2014 meeting, the Committee approved the 2015 glide path roll-down for the custom Target Date Funds. Mr. Waddell informed the Committee the roll-down will occur on August 21st.

Neuberger Berman (Underlying TDF Manager)

Mr. Waddell discussed that the Neuberger Berman Global Thematic Opportunities Fund was placed on Watchlist status in August of 2014 given short-term performance (last three-year time period) and asset outflows. The Neuberger Berman Global Thematic Opportunities Fund serves as an underlying component of the custom Target Date Funds and is not offered to participants on a stand-alone basis. The Fund's short-term performance has trailed the median peer performance and its benchmark. Underperformance has largely occurred from the Fund's emerging markets exposure, allocations to inflation-related strategies (e.g., gold), and cash holdings. As a result of the recent underperformance, the Fund has experienced asset outflows.

During the February meeting, the Committee elected to replace Neuberger Berman Global Thematic Opportunities with Epoch Global Shareholder Equity. The replacement occurred on July 22nd.

Wells Fargo Advantage Capital Growth

Ms. Spudich discussed personnel changes related to the Wells Fargo Advantage Capital Growth Fund. Chad Fugere, a Healthcare Analyst, left the firm to pursue another opportunity. Anna Toscach, a Junior Analyst in the area of Consumer Discretionary stocks, left the firm given a desire to move to New York City. These departures are unrelated and do not cause any concern given the deep Healthcare experience already on the team and the addition of new Analyst, Aziz Pirhboy, to help in Consumer Discretionary.

Investment Structure Review

Ms. Spudich then walked through an Investment Structure Review for the Plans. She reminded the Committee members that Hoosier S.T.A.R.T.'s tiered investment menu aligns plan design with participant behavior and provides an investment solution for each investor type.

Ms. Spudich noted that while not subject to ERISA, Hoosier S.T.A.R.T. follows best practices by utilizing a proper default option (an age-appropriate Target Date Fund), offering a broad range of investment alternatives and allowing participants to exercise control over their assets. Hoosier S.T.A.R.T. also offers a comprehensive investment menu to participants with no gaps within the investment option array.

Ms. Spudich then discussed various trends in the Defined Contribution marketplace. She confirmed that Hoosier S.T.A.R.T.'s investment structure, plan design and participant education tactics reflect best practices and position the Plan as an attractive retirement savings vehicle.

VI. Old Business

None.

VII. New Business

None.

VIII. Adjournment

There being no further business before the Committee the meeting was adjourned at 9:54 a.m. The next meeting is November 19, 2015.