



**MINUTES
PUBLIC MEETING
November 19, 2015
9:00 am
IGCS Conference Room 12**

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; 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; Mike Paton of Barnes & Thornburg (Counsel to the Committee and the Administrator); and, Tarek Zeni 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 August 20, 2015 meeting. Ms. Acobert moved to approve the minutes. Mr. Bastin seconded. The minutes were unanimously approved.

IV. Administrators Report

Ms. Johnson provided an update to the Committee on the fall education dinners and the record attendance.

V. Investment Manager Presentation

Ms. Spudich introduced Paul Murphy, Portfolio Manager, and Chris Faber, Portfolio Manager and President, of IronBridge to the Committee. Mr. Faber provided an educational presentation to the Committee. During the presentation, Mr. Faber outlined that the IronBridge SMID Fund provides participants active equity exposure to a diversified portfolio of domestic, small and mid-capitalization companies. The Fund seeks to achieve its investment objective of capital appreciation by owning companies that deliver corporate performance (Cash Flow Return on Investment and asset growth) not reflected in today's stock price.

Mr. Faber also addressed the Fund's underperformance over the last three- and five-year time periods. Underperformance has primarily occurred due to the Fund's high quality focus during a period where low

quality and leveraged companies have been rewarded. Year-to-date, relative performance has improved as the Fund's strategy has been more in favor.

The Fund is currently on Watchlist status and will continue to be closely monitored by Capital Cities, L.L.C. and the Committee.

VI. Investment Consultant Report

Market Review

Mr. Zeni provided the Committee with third quarter 2015 market commentary. He discussed that the third quarter was marked by heightened volatility and negative returns within global equity. Three major factors were at play, including China's weakening economy, declining commodity prices and the Fed's delay of interest rate increases.

Overall, broad global equity markets detracted sharply in the third quarter. The S&P 500 fell by -6.4%, which ended the index's streak of ten consecutive quarterly advances. In general, defensive areas of the market held up as investors shifted to a risk-off mentality—Utilities (+5.4%). Commodity price declines and slow global growth were major factors behind sharp, negative returns within Energy (-17.4%) and Materials (-16.9%). Foreign equities were also negative (MSCI EAFE: -10.2%), and lagged their U.S. counterparts. Emerging Markets (MSCI EM: -17.8%) experienced the sharpest decline as the asset class suffered over Chinese concerns and large capital outflows. On the other hand, Mr. Zeni detailed that since October 1st, equity returns had considerably improved.

Within fixed income, yields fell across most durations. The Barclays Aggregate Index was positive for the quarter adding +1.2%, as Treasury bonds (+1.8%) were additive given rates fell and the "risk off" sentiment prevailed. However, High Yield (-4.9%), TIPS (-1.2%) and Emerging Market Debt (-1.7%) faced negative returns. In this type of environment, many active fixed income managers, that hold non-benchmark sector exposure, did not perform as well as the Barclays Aggregate Bond Index.

Manager Updates

Ms. Spudich provided brief commentary on each of the investment options, including their investment objectives and short- and long-term performance. Of particular note, Ms. Spudich discussed that an onsite visit was conducted by Auditor Crouch and Capital Cities, L.L.C. with lead portfolio manager, Tom Pence, of the Wells Fargo Advantage Capital Growth Fund on October 13th. During the meeting, the Fund's underperformance over the last two-year time period was addressed. Over the last two years, the Strategy has been out-of-favor. Specifically, Wells' underweight position to "Core" holdings (companies that exhibit stable growth record and lower volatility) and overweight to "Developing Situations" holdings (companies that exhibit lower expectations and average volatility) relative to the Russell 1000 Growth Index has detracted. Wells remains convicted in its positioning and rankings of these stocks. Capital Cities, L.L.C. and the Committee will closely continue to monitor performance of the Fund.

Additionally, Ms. Spudich focused on the performance of Domini Social Equity. Underperformance over the last one-year time period has been driven by the Value bias in Fund's subadvisor's (Wellington) quantitative model, as Value stocks have notably underperformed over the last year. Ms. Spudich indicated that Domini will be invited to speak at the February Committee meeting.

PIMCO Total Return/Unconstrained Bond

Ms. Spudich provided an update on PIMCO. 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.

During the third quarter, there were no notable additions to personnel or departures. Assets under management at the firm remained relatively stable at \$1.52 trillion. The PIMCO Total Return and Unconstrained Bond Funds posted negative returns for the third quarter, which was explainable given the environment in which there was a flight to quality, decrease in rates, spread widening in non-benchmark sectors and a decrease in inflation expectations (impacting TIPS).

Capital Cities does not recommend any action at this time. Nevertheless, Capital Cities, L.L.C. and the Committee will continue to closely monitor PIMCO on Watchlist status. Additionally, a contingency public manager search has been conducted in the event a replacement is required.

Investment Policy Statement

Ms. Spudich discussed with the Committee that the Plan's Investment Policy Statement ("IPS") was reviewed. The IPS formally documents the strategic planning decisions of the Committee and provides a roadmap for how those decisions are monitored. As part of Capital Cities' annual review, Ms. Spudich recommended that the IPS be amended to account for the change in the investment menu (the addition of the Indiana 2060 Fund and elimination of the Indiana 2015 Fund) along with the rebranding of the Plan's recordkeeper (Great West is now known as Empower). Updates were also made to the Appendix of the IPS. Mr. Frick moved to approve the IPS. Ms. Acobert seconded. The IPS was unanimously approved.

VII. Old Business

None.

VIII. New Business

Mr. Paton discussed with the Committee that he is working with the Auditor's Office to formalize a process for fiduciary training and potentially establishing expanded conflicts of interest policies for the Committee. Additionally, Mr. Paton is working to submit required documents to the IRS as part of the Plan's normal business proceedings.

VIII. Adjournment

There being no further business before the Committee, the meeting was adjourned at 10:10 a.m. The next meeting is February 18, 2016.