



**MINUTES  
PUBLIC MEETING  
November 15, 2018  
9:00 am  
Indiana State House, Room 125**

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

State Auditor Tera Klutz called the meeting to order at 9:00 a.m. Committee members present were Lisa Acobert (Appointee, Board of Finance); and Zac Jackson (Appointee, Governor). Also present were Staci Schneider (Chief of Staff to the Auditor of State) and Vicky Hunt (Auditor of State); Mike Paton (Barnes & Thornburg, Counsel to the Committee and the Administrator); Jaimie Beisel and Ann Mahrtd (Empower Retirement, Third Party Administrator to the Plans); and, Tiffany Spudich and Peter Harvey (Capital Cities, L.L.C., Investment Consultant to the Committee).

**II. Live-Streaming Disclaimer**

The meeting was live-streamed. Mr. Harvey provided the live-streaming disclaimer.

**III. Reading of the Minutes**

State Auditor Tera Klutz asked for a motion to approve the minutes from August 16, 2018. **Mr. Jackson moved to approve the minutes. Ms. Acobert seconded. The minutes were unanimously approved.**

**IV. Administrator's Report**

Ms. Schneider indicated that a review of both the local and state Plans was conducted. Additionally, there were two new adoptions to Hoosier S.T.A.R.T., both of which were local. Ms. Schneider updated the Committee that the fall educational dinners had been completed. There were six dinners hosted with over 400 attendees. In addition, Ms. Schneider indicated that Hoosier S.T.A.R.T. received two awards from MarCom with regard to its advertising and communication campaigns.

**V. Investment Consultant Report**

**Manager Monitoring**

Ms. Spudich notified the Committee that the Fidelity Low-Priced Stock Fund's three-year return now trails its stated benchmark and a custom benchmark that aligns with the Fund's flexible approach. Capital Cities is currently conducting a further review and will provide additional analysis at the next quarterly Committee meeting.

Ms. Spudich also provided an update on the Carillon Reams Unconstrained Fund, which is an underlying

component of the Indiana Flexible Bond Fund. While the Fund has generated positive absolute performance (+0.8%), the Fund is trailing its benchmark and peer group over the five-year period. Ms. Spudich highlighted that the Fund has been conservatively positioned, which has impacted relative performance.

Ms. Spudich also indicated that Capital Cities has been working with Logan Circle (Global Wrap Manager) of the Indiana Stable Value Fund regarding the potential to reduce fees and increase investment flexibility given the improvements in the stable value environment. Logan is targeting December 2018 to finalize wrap provider negotiations. A 12-month put has been placed with Fidelity for a September 1, 2019 effective date, to decrease the allocation 15 percentage points from Tier II (Fidelity MIP II) to Tier III (Logan Intermediate).

### **Market Review**

Peter Harvey of Capital Cities provided the Committee with a market review for the third quarter. Mr. Harvey highlighted that domestic equity markets continued to advance given positive economic data and strong corporate earnings. The S&P 500 was positive 7.7% for the third quarter driven by growth-oriented stocks. The strongest performance occurred within Large Cap Growth stocks which returned +9.2%, leading all other styles of domestic equity. Developed foreign equities (+1.4%) trailed their domestic counterparts for the fourth consecutive quarter. Emerging Markets (-1.0%) were the worst performing equity style. With the exception of Emerging Markets, all equity styles were still displaying positive returns over the last one-year time period ending September 30, 2018. Turning to fixed income, returns were mixed across styles. The Federal Reserve raised the Fed Funds Rate (2.00% - 2.25%) in September. The Bloomberg Barclays Aggregate Bond Index (+0.0%) closed the quarter relatively unchanged, as Treasuries (-0.6%) underperformed Corporates (+0.9%). Most broad styles of fixed income are in negative territory over the last one-year time period ending September 30, 2018.

### **Annual Fee Analysis**

Capital Cities provided a presentation in order to assist the Committee in reviewing the Plans' investment management, recordkeeper and consultant fees. The Fee Analysis documented the close monitoring and benchmarking of the Plans' fees.

### **Target Date and Passive Fund Surveys**

During the August 16, 2018 meeting, the Committee elected to issue a Broad Agency Announcement (BAA) for Target Date Funds, in order to evaluate the Plans' custom Target Date Funds' approach relative to off-the-shelf providers. The Committee also voted to issue a BAA for the Plans' passive mandates, with the exception of the newly hired Vanguard FTSE Social Index, in order to survey for potential fee reductions. In addition, the Committee approved the termination of the BlackRock Inflation Protected Bond given recent personnel changes. As part of this termination, the Committee elected to transition to a passive Treasury Inflation Protected Securities Fund.

Ms. Spudich began the presentation by discussing the Target Date Funds' Survey. BAA responses were received for 26 different Target Date Funds' suites. Respondents were categorized into three separate categories: passive, blend, and active. Three finalists were presented, including State Street Global Advisors (passive), Voya (blend) and JPMorgan (active). Qualitative and quantitative assessments of each of the Target Date Funds' finalists were provided, along with the Plans' current custom Target Date Funds. The Committee elected to invite State Street Global Advisors to present the firm's Target Retirement Strategy Funds at the next Committee meeting. Capital Cities will work with Auditor's Office and the Committee to schedule a meeting for December.

Ms. Spudich provided an update on the Indiana Target Date Fund's performance, particularly focusing on the diversifying equity component of the Funds. As a result of the findings, **Ms. Acobert motioned to terminate the active equity component of the custom Target Date Funds and map the assets to the passive component. Mr. Jackson seconded. The vote passed unanimously.** In light of the current Target Date Funds' review and survey being conducted, **Mr. Jackson motioned to delay the annual roll down of the Plans' custom Target Date Funds. Ms. Acobert seconded. The vote passed unanimously.**

Mr. Harvey presented the results of the Passive Funds' Survey. It was noted that 35 BAA responses were received. Mr. Harvey explained that the BAA allowed for investment managers to respond for each passive mandate separately as well as a bundled offering. State Street Global Advisors was selected as the finalist for each of the investment options as the firm's fees were either equal to or lower than the other respondents. **Mr. Jackson motioned to move all of the Plans' passive mandates, with the exception of the Vanguard Social Index Fund, to State Street Global Advisors. Ms. Acobert seconded. The vote passed unanimously.**

**VI. Old Business**

None.

**VII. New Business**

None.

**VIII. Adjournment**

There being no further business before the Committee, the meeting was adjourned at 10:09 a.m. **Mr. Jackson motioned for adjournment. Ms. Acobert seconded the motion.** The next quarterly meeting is February 21, 2019, at 9:00 a.m.