



**MINUTES
PUBLIC MEETING
February 21, 2019
9:00 a.m.**

Indiana Government Center South, Room 12

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), Zac Jackson (Appointee, Governor), and Ryan Locke (Appointee, Treasurer of State). 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); Tiffany Mulligan and Jennifer Cooper (Indiana Office of the Inspector General), Jaimie Beisel (Empower Retirement, Third Party Administrator to the Plans); and, Tiffany Spudich and Corey Waddell (Capital Cities, L.L.C., Investment Consultant to the Committee).

II. Live-Streaming Disclaimer

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

III. Reading of the Minutes

State Auditor Tera Klutz asked for a motion to approve the minutes from December 18, 2018. **Ms. Acobert moved to approve the minutes. Mr. Locke seconded. The minutes were unanimously approved.**

IV. Administrator's Report

Ms. Mulligan provided the Committee with a review of the Indiana Office of Inspector General's roles and responsibilities. She highlighted the Indiana Code of Ethics and Conflicts of Interest with the Committee. As part of the discussion, Ms. Cooper noted the Decisions and Voting rule, along with procedures to receive advice from the Indiana Office of Inspector General.

V. Investment Consultant Report

Market Review

Mr. Waddell presented the 2018 Market Review/2019 Outlook presentation. He touched on the broad economy and how markets reacted throughout the year. In general, Capital Cities attributes the volatile market to concerns about global trade and the Fed's tighter monetary policy stance. Despite strong corporate earnings and other positive economic data, risk markets sold-off. Equity fared poorly in 2018, along with the riskier sectors of Fixed Income. The only positive area in the markets was the modest return exhibited by Cash. However, Equity and Fixed Income returns remain strong over the last five-, ten-, and

15-year time periods. Looking ahead, Capital Cities recognizes that various forces could impact the markets. Capital Cities continues to recommend portfolios and investment menus that are diversified. Mr. Waddell concluded the presentation with Capital Cities' proposed fiduciary calendar of projects for 2019, including an Investment Policy Statement review in May, a fee analysis in August, and an investment structure review in November.

4Q18 Performance & Evaluation Report

Ms. Spudich presented the 4Q18 Performance & Evaluation Report to the Committee. As part of the discussion, Ms. Spudich highlighted the ongoing monitoring of the Fidelity Low-Priced Stock Fund. In particular, the Fund's three-year return has trailed its stated benchmark and a custom benchmark. The underperformance is largely attributable to the Fund's high quality value style which has been out of favor during the momentum driven markets over the three-year timeframe. The Fund has also had a meaningful investment in international securities during this period, as valuations outside of the US markets have been more attractive. Capital Cities will continue to closely monitor the Fund's three-year performance. Most recently, the Fund's strategy and positioning were in favor during the fourth quarter 2018, outperforming its benchmarks and ranking in the top 40% of peers.

Ms. Spudich also discussed recent and upcoming changes to the Plans. During the November meeting, SSgA was selected by the Committee as the Plans' passive provider (Stand-Alone Options: S&P 500 Index, US Small/Mid Cap, US TIPS; Underlying Target Date Funds' Components: Total US Stock Market, Total Non-US Stock Market), with the exception of the Vanguard Social Index Fund. The total estimated annual investment management fee savings is \$79k. The Committee also elected to terminate the active equity component (Putnam and Epoch) of the Plans' custom Target Date Funds. These changes are scheduled to occur on March 8th.

The Plans recently completed share class exchanges for some of the investment options on December 7th, as the Plans became eligible for less expensive share classes. In particular, the Committee approved transitioning to the less expensive share classes of Carillon Reams Unconstrained Bond, Vanguard Institutional Index and T. Rowe Price Blue Chip Growth, along with moving to the Series 3 share class of Wellington Real Total Return. The total estimated annual investment management fee savings is ~\$133k.

In addition, Ms. Spudich noted the upcoming changes to the Indiana Stable Value Fund. 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. 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), as previously approved by the Committee.

Total assets in the Plans stood at \$1.2 billion as of the end of the year. A summary qualitative and quantitative review ("stoplight grid") of each of the investment options was also provided to the Committee.

Target Date Survey

Ms. Spudich provided a recap of the recent Target Date Funds' Survey and Committee meetings. In particular, 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. As a result of the Survey findings, the Committee elected to invite SSGA to present the firm's Target Retirement Strategy Funds at the December 18th Committee meeting.

Ms. Spudich noted that the current Target Date Funds in the Plans are custom created. The Funds utilize

an open architecture manager construction approach that has both passive, broad market strategies and active, flexible strategies. The current Target Date Funds also utilize a conservative asset allocation relative to off-the-shelf peers given previous participant demographics and Committee preferences. However, Ms. Spudich noted that participant demographics are changing, as there is a growing participant population that has elected for the “My Choice Retirement Savings Plan” (Defined Contribution Plan) vs. the “Hybrid” (Defined Benefit Plan + Defined Contribution Plan) with the Indiana Public Retirement System. Additionally, the current Committee has expressed a preference for a passive, low-cost approach to the Target Date Funds.

As discussed in the November and December Committee meetings, Ms. Spudich highlighted that the SSGA Target Retirement Strategy Funds follow a strategic, index-based approach. The Funds exhibit a fully diversified underlying fund lineup with exposure to equity, inflation sensitive styles and fixed income. The Funds utilize a “through” glide path approach in which the SSGA’s Target Retirement Strategies continue to de-risk through the retirement date and fold into a single retirement income fund (SSGA Target Retirement Income Fund) five years after the targeted retirement year is achieved. Ms. Spudich also discussed the low investment management expense of 6.5 basis points. In addition, the Funds’ performance has closely replicated their stated benchmarks over time, given the strategic, index-based approach.

Ms. Spudich and the Committee compared SSGA’s approach relative to the current custom Target Date Funds. In particular, the asset allocation of the approaches was reviewed, noting that SSGA’s construction was more aggressive than the current Target Date Funds, but comparable to off-the-shelf peers.

Ms. Spudich also noted that the Committee previously received SSGA’s audited financials and securities lending white paper via email, as requested by the Committee during the December 18th meeting. Ms. Spudich discussed that the Committee’s request for the list of approved counterparties in the securities lending program could be provided under a non-disclosure/confidential agreement.

Mr. Locke moved to approve transitioning from the current custom Target Date Funds’ approach to the SSGA Target Retirement Strategy Funds. Mr. Jackson seconded. The SSGA Target Retirement Strategy Funds were unanimously approved.

Ms. Spudich anticipates the transition to occur in September 2019, given the Indiana Stable Value Fund is an underlying component of the current custom Target Date Funds. In the interim, Empower (the Plans’ recordkeeper) will draft participant communication. The Committee requested to review the participant communication pieces during the May 16th Committee meeting. Additionally, the Committee requested data regarding participant utilization of the Target Date Funds.

VI. Old Business

None.

VII. New Business

None.

VIII. Adjournment

There being no further business before the Committee, the meeting was adjourned at 10:17 a.m. **Mr. Jackson motioned for adjournment. Ms. Acobert seconded the motion.** The next quarterly meeting is May 16, 2019 at 9:00 a.m.