



**MINUTES
PUBLIC MEETING
February 22, 2018
9:00 am
IGCS, Conference 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 of Board of Finance); Dan Bastin (Morgan County Auditor); Zac Jackson (Deputy Budget Director, SBA); and Mike Frick (Chief Deputy Treasurer). Also present were Staci Schneider (Chief of Staff to the Auditor of State) and Vicky Hunt with the Auditor of State's Office; Mike Paton of Barnes & Thornburg (Counsel to the Committee and the Administrator); Jaimie Beisel with Empower Retirement (Third Party Administrator to the Plans); Meghan Timbas and Chuck Cook with BNY Mellon Asset Management/The Boston Company (Representatives of an Investment Manager); Tiffany Spudich and Peter Harvey with 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 the August 17, 2017 and November 16, 2017 meetings. **Mr. Frick moved to approve the minutes. Mr. Jackson seconded. The minutes were unanimously approved.**

IV. Administrator's Report

State Auditor Tera Klutz informed the Committee that there was no new business at this time.

V. Investment Manager Presentation

BNY Mellon Asset Management/The Boston Company EB Dynamic Large Cap Value

Meghan Timbas, Vice President and Relationship Manager, provided the Committee with an update on the recent organizational changes at The Boston Company. Ms. Timbas noted that the firm has been combined with other BNY subsidiaries, Standish and Mellon Capital, to form BNY Mellon Asset Management North America. It was also noted that there would be no changes to the day-to-day portfolio management process as a result.

Chuck Cook, Portfolio Strategist, provided an update on the EB Dynamic Large Cap Value Investment

Team, noting that the team had been very stable and there were no changes. Mr. Cook detailed that the focused nature of the team was meant to allow them to focus solely on portfolio management and that the team leverages the centralized research resources of the firm for individual company analysis. Mr. Cook outlined the investment process and explained that it is centered around identifying companies that exhibit strong fundamentals and attractive valuations with an active catalyst for value realization. It was also noted that the portfolio will only take active positions in securities. Additionally, the EB Dynamic Large Cap Value Team leverages the extensive risk management resources available to them on a daily, weekly and monthly basis.

Mr. Cook briefly discussed both recent and historic performance of the strategy, as well as the current positioning within the portfolio. On a year-to-date basis, the composite portfolio (not the INDC portfolio specifically) had increased in value by 0.48%, outperforming its Russell 1000 Value benchmark which had decreased in value by 1.80%. The portfolio's outperformance was attributable to both security selection and sector allocation. The portfolio is currently underweight REIT and utility sectors and overweight financial and industrial sectors.

VI. Investment Consultant Report

2017 Market Review

Mr. Harvey provided a review of calendar year 2017 performance across the broad equity and fixed income markets, noting that it was a strong year for risk assets. In particular, Mr. Harvey noted that while it was a strong year for U.S. equity returns, international equities outperformed their domestic peers for the first time in a couple of years. Bucking the trend from 2016, large-cap stocks outperformed small-cap stocks. The long-term returns of U.S. stocks have been solid and have outpaced fixed income returns over five-, ten-, and fifteen-year periods. Within fixed income, Mr. Harvey highlighted that the Fed raised interest rates three times during the year; however, broad fixed income returns ended the year modestly positive. A weakening U.S. Dollar and improving economic fundamentals led to outperformance of foreign bonds relative to their domestic peers.

Ms. Spudich presented the timeline of projects for 2018. Capital Cities will present the following projects to the Committee in addition to the quarterly performance and evaluation reports:

1. February 2018 Meeting- 2017 Year-End Market Review
2. May 2018 Meeting- Indiana Stable Value Analysis
3. August 2018 Meeting- Investment Structure Review and Target Date Funds' Analysis
4. November 2018 Meeting- Comprehensive Fee Analysis

This customized timeline was designed by Capital Cities to assist the Committee in meeting their fiduciary responsibilities.

Manager Monitoring

Ms. Spudich provided a qualitative and quantitative assessment of the investment options offered in the Plan and noted that total Plan assets were \$1,238,923,029 at the end of the year. As part of the discussion, she updated the Committee on the fund line-up changes, including the replacement of the Wells Fargo Capital Growth Fund with the T. Rowe Price Blue Chip Growth Trust and the replacement of BlackRock Large Cap Value Fund with the The Boston Company EB Dynamic Large Cap Value Fund. In addition, the Vanguard Institutional Index Fund and the Vanguard Extended Market Index Fund were replaced with the Vanguard Total Stock Market Fund within the custom Target Date Funds. These changes took place on November 17, 2017.

Separately, Ms. Spudich provided the Committee with an update regarding the freezing of contributions to the Domini Impact Equity Fund and mapping of all future contributions to the Vanguard Institutional Index Fund. This occurred in December, 2017. Ms. Spudich also discussed that the IronBridge SMID Fund termination and mapping of assets to a newly added Vanguard Extended Market Index are slated to occur in March, 2018.

In addition, Ms. Spudich gave an update on the Watchlist status of the Wellington Real Total Return strategy (an underlying component of the custom Target Date Funds). She indicated that the strategy has outperformed since being placed on Watchlist status; however, Capital Cities will continue to closely monitor the Fund.

Lastly, Ms. Spudich noted a new less expensive share class of the Fidelity Diversified International Fund which would reduce the investment management expense by nine basis points. **Mr. Frick moved to approve the share class exchange. Mr. Jackson seconded. The exchange was unanimously approved.**

Passive Domestic Socially Responsible Investing (SRI) Equity Fund Search

Mr. Harvey presented the results of the Passive Domestic SRI Equity Broad Agency Announcement (BAA) that was issued on September 18, 2017. Capital Cities received eight responses to the BAA and recommended the Vanguard FTSE Social Index Fund replace the Domini Impact Equity Fund given Vanguard's demonstrated ability to track its benchmark, long track record, assets in the product, and low fees. **Mr. Bastin moved to approve the investment option change. Mr. Frick seconded. The replacement was unanimously approved.**

IPS Review

Capital Cities conducted a review of the Investment Policy Statement. Ms. Spudich walked the Committee through the minor changes made to the appendix of the document. No vote was required given the body of the document was not amended.

VII. Old Business

Ms. Klutz noted that there was no update on the Next Level Fund and that more information could be available upon completion of the current session of the State Legislature.

VIII. New Business

Mr. Paton outlined the requirements for adopting an electronic communications policy, whereby Committee Members would be able to participate in meetings by phone to assure that there was a quorum at each meeting. The Committee will work to draft a policy to be further discussed.

IX. Adjournment

There being no further business before the Committee, the meeting was adjourned at 10:25 a.m. The next meeting is May 17, 2018 at 9:00 a.m.