



**MINUTES
PUBLIC MEETING
February 23, 2017
10:00 am
IGCS Conference Room 12**

I. Call to Order/Roll Call

State Auditor Tera Klutz called the meeting to order at 10:00 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 Staci Schneider, Deputy Auditor of State, and Vicki 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); David Morrison with Capital Group (an Investment Manager); and, Tiffany Spudich with 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 the November 17, 2016 meeting. Mr. Frick moved to approve the minutes. Mr. Bastin seconded. The minutes were unanimously approved.

IV. Administrator's Report

In her first meeting serving as the Auditor of State, Ms. Klutz introduced herself to the Committee, along with Ms. Schneider, Deputy Auditor of State.

V. Investment Manager Presentation

American Funds EuroPacific Growth

Ms. Spudich provided the Committee with a brief overview of the American Funds EuroPacific Growth Fund. The American Funds EuroPacific Growth Fund serves as an International Equity offering for participants in the Plans. As of December 31, 2016, the American Funds EuroPacific Growth Fund represented \$17.2 million of the Indiana Deferred Compensation Plans' assets.

David Morrison, who serves as a Relationship Manager for the Capital Group, provided the Committee with Capital Group's 2017 outlook on the markets. Additionally, Mr. Morrison specifically addressed the Capital Group's organization and the American Funds EuroPacific Growth Fund's personnel, philosophy/process, product dynamics and performance. In particular, Mr. Morrison noted that the Capital Group was founded in 1931 and is a privately held company with \$1.4 trillion in assets under management.

The American Funds EuroPacific Growth Fund utilizes the Capital System in which the portfolio is divided into segments that are managed independently by individual portfolio managers—nine in total. Each portfolio manager runs a diversified portfolio of highest conviction ideas. Analysts also manage a portion of the Fund, known as the research portfolio. The Fund is built from the bottom up, security by security, based on extensive research.

The American Funds EuroPacific Growth Fund's investment objective is to provide long-term growth of capital. The Fund invests in securities of companies based chiefly in Europe and the Pacific Basin, ranging from small firms to large corporations, providing investors with diversified international exposure. In total, \$120.2 billion in assets were invested in the EuroPacific Growth Strategy as of December 31st.

Mr. Morrison also addressed performance. Over the last one-year time period, the American Funds EuroPacific Growth Fund trailed its benchmark given underweight exposure in the Energy and Materials' sectors. This positioning worked against the Fund, as these stocks benefitted from a rebound in commodity prices. Additionally, the Fund experienced some stock selection issues (e.g., Novo Nordisk, Associated British Foods and International Consolidated Airlines). However, the American Funds EuroPacific Growth Fund has experienced strong performance relative to its benchmark over the last three-, five-, and ten-year time periods. The Fund has also displayed strong relative performance since inception (April 16, 1984).

VI. Investment Consultant Report

Market Review

Ms. Spudich provided a review of calendar year 2016 performance across the broad equity and fixed income markets. In particular, Ms. Spudich noted that U.S. equity returns generally exceeded international returns, as has been the case the last few years. Small-cap stocks returned more than their large-cap peers. The long-term returns of U.S. stocks have been solid and have outpaced fixed income over five-, ten- and fifteen-year periods. Within fixed income, Ms. Spudich highlighted that interest rates were extremely volatile during 2016; however, broad fixed income returns ended the year modestly positive. The strength of the U.S. dollar continued to weigh down the returns of foreign bonds which lagged their U.S. counterparts.

Manager Monitoring

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 informed the Committee that Fidelity eliminated the short-term redemption fees for the Fidelity Low-Priced Stock Fund and Fidelity Diversified International Fund in mid-December. Ms. Spudich also indicated that Vanguard is expected to introduce new share classes of the Vanguard 500 Index Fund that can reduce investment management expenses for participants. Capital Cities will work with Empower to add the new share classes to Empower's platform once Vanguard makes the share classes available.

Ms. Spudich provided an update on each of the investment options that are on Watchlist status. In particular, Ms. Spudich reminded the Committee of the close monitoring that has been conducted on the Domini Social Equity Fund, including Domini presenting to the Committee during the February 18, 2016 meeting. The Fund's three-year return continues to be impacted by calendar year 2015 in which Domini trailed the S&P 500 Index primarily due to the Strategy being out of favor and some stock selection issues. Most recently, the Fund posted a 4.0% return for the fourth quarter, slightly outperforming the S&P 500 Index. During the fourth quarter, the Fund's value and quality themes drove outperformance (as it did in the third quarter). On November 30th, Domini renamed the Social Equity Fund to "Domini Impact Equity Fund." Close monitoring of the Domini Social Equity Fund will continue.

Ms. Spudich addressed the Wells Fargo Capital Growth Fund. The Fund was placed on Watchlist status in August, 2016 given personnel changes and recent asset outflows. Specifically, Wells Asset Management announced in May, 2016 the upcoming retirement of Tom Pence in September. Mr. Pence had managed the Fund since its inception. Mike Smith, a long-time portfolio manager and member of the team, took over as Managing Director of the Fundamental Growth Equity Team and assumed a senior portfolio manager position on the Wells Fargo Capital Growth Fund. The Indiana Deferred Compensation Plans' Committee recently met with Mr. Smith at the November 17, 2016 meeting. The Fund has also experienced material outflows over the last several years given the Fund's stock selection process has been out of favor. Ms. Spudich recommended that a contingency public manager search be conducted. Mr. Frick moved to approve Capital Cities' recommendation. Ms. Acobert seconded. The contingency manager search was unanimously approved.

Ms. Spudich also provided detail on the IronBridge SMID Fund that is currently on Watchlist status. The Strategy's low-risk positioning hindered performance during the second half of 2016. The Strategy has \$460 million in assets under management as of December 31, 2016. Capital Cities continues to closely monitor performance and asset flows.

In addition, Ms. Spudich discussed PIMCO. The PIMCO Total Return Fund and PIMCO Unconstrained Bond Fund have been on Watchlist status. The PIMCO Total Return Fund is offered to participants as a stand-alone option, while the PIMCO Unconstrained Bond is an underlying component of the Indiana Flexible Bond option. Since early 2014, Capital Cities and the Committee have been closely following PIMCO in terms of personnel, product dynamics (asset flows) and performance. Over the last year, personnel concerns have diminished, assets have generally stabilized and performance has been explainable. As a result, Ms. Spudich recommended to remove PIMCO from Watchlist status. Mr. Frick moved to approve Capital Cities' recommendation. Mr. Jackson seconded. The "retain" status of PIMCO was unanimously approved.

Ms. Spudich also discussed the Wellington Real Total Return Strategy. The Strategy was placed on Watchlist status in May, 2016, following challenging performance and personnel changes. Members of the Wellington team presented to the Committee in August, 2016. Ms. Spudich noted that Wellington posted a -0.21% for the fourth quarter, handily outperforming the Bloomberg Barclays US TIPS 1-10 Year Index by over a percentage point. Since Steve Gorman, director of tactical asset allocation strategies and a partner, took over the Strategy at the end of the first quarter of 2016, the team has outperformed the Index by 668 basis points. Exposure to active managers have contributed the most to performance during both time periods. The Strategy will continue to be closely monitored on Watchlist status.

Investment Policy Statement

Capital Cities conducted a review of the Investment Policy Statement. Ms. Spudich walked the Committee through the minor amendments made to the document. Mr. Frick moved to approve the Amended Investment Policy Statement. Mr. Bastin seconded. The Investment Policy Statement was

unanimously approved.

VII. Old Business

Mr. Paton indicated that the matching 401(a) plans were filed with the IRS as part of the routine five-year filing cycle. No requested changes or comments were made by the IRS.

VIII. New Business

None.

IX. Adjournment

There being no further business before the Committee, the meeting was adjourned at 11:25 a.m. The next meeting is May 25, 2017.