



**MINUTES
PUBLIC MEETING
May 25, 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 (Appointee of Board of Finance); Zac Jackson, SBA; 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); Michael Bishopp, Gregory Burk, Craig Voelker (Representatives of an Investment Manager); and, Tiffany Spudich, Joe Bill Wiley and Peter Harvey with Capital Cities, L.L.C. (Investment Consultant to the Committee).

II. Live-Streaming Disclaimer

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

III. Reading of the Minutes

State Auditor Tera Klutz asked for a motion to approve the minutes from the February 23, 2017 meeting. **Mr. Frick moved to approve the minutes. Ms. Acobert seconded. The minutes were unanimously approved.**

IV. Administrator's Report

Ms. Klutz noted that there were no off-agenda items to be addressed at the meeting.

V. Investment Manager Presentation

Black Rock Large Cap Value Update

Ms. Spudich presented the upcoming changes regarding the BlackRock Large Cap Value Fund (the active Large Cap Value option in the Plans). Ms. Spudich noted that on March 29, 2017, BlackRock announced that Peter Stouraras, the lead portfolio manager of the strategy, would be leaving the firm in mid-June. At that time, the Large Cap Value Strategy will be transferred to the Scientific Active Equity (SAE) team and will be managed using a purely quantitative strategy. Additionally, it was noted that the Large Cap Value Fund will be rebranded to the "Advantage Large Cap Value Retirement Fund."

Craig Voelker, who serves as a Managing Director for BlackRock, read an additional disclaimer pertaining to the materials that BlackRock would present. Mr. Voelker provided an overview of the

history of BlackRock as a firm and highlighted the evolution of its product offerings over time.

Gregory Burk, a Product Specialist for the Fundamental Large Cap Team, gave an overview of the rationale surrounding the changes to the strategy. It was noted that these changes are a result of a structural shift in Blackrock's view of how to best deliver investment outcomes for clients.

VI. Investment Consultant Report

Market Review

Ms. Spudich provided a review of first quarter 2017 performance across the broad equity and fixed income markets. In particular, Ms. Spudich noted that U.S. equity returns were positive with Growth outperforming Value and Large Cap equities outperforming Small Cap. Non-US equities, including Emerging Markets, experienced strong returns. Fixed Income returns were muted on a broad basis, but High Yield and Emerging Markets outperformed.

Manager Monitoring and Manager Searches

Ms. Spudich provided an overview of the investment menu on both a qualitative and quantitative basis. Of particular note, Ms. Spudich indicated that there is an organizational change with the Scout Unconstrained Bond Fund, an underlying component of the Indiana Flexible Bond Fund. On April 20th, Reams Asset Management announced that it will be acquired by Carillon Tower Advisors. Reams is currently owned by UMB Financial, of which Scout Investments is a division. As a result of the acquisition by Carillon, there should be no changes to Ream's investment philosophy, process or team. In fact, the key investment professionals have employment contracts through 2022. Reams expects to benefit from the broad distribution capabilities of Carillon, as this is a not a focus of the investment team in Columbus, Indiana. Capital Cities will be closely monitoring Reams' transition to Carillon.

Ms. Spudich also gave an update on Logan Circle Partners (underlying manager of the Indiana Stable Value Fund), as SoftBank and Fortress Investments Group announced that they have entered into a definitive merger agreement under which SoftBank will acquire Fortress. As a wholly owned subsidiary of Fortress, Logan Circle will be included in the acquisition. Capital Cities noted that the key employees will be retained under employment agreements that continue to 2021. Capital Cities will monitor the ownership change.

In addition, Ms. Spudich provided an update to the Watchlist status of the Domini Impact Equity Fund. It was noted that Capital Cities is conducting quarterly calls with Domini to monitor performance. Additionally, it was presented to the Committee that the Fund had reduced its investment management fees from 0.80% to 0.74%. Capital Cities recommended maintaining the Watchlist status and close monitoring. The Committee would like Capital Cities to consider the appropriateness of the benchmark for Domini given its Value bias and environmental, social, governance (ESG) restrictions. This will be further addressed at a later meeting.

Ms. Spudich noted to the Committee that the Watchlist status for IronBridge SMID Cap Equity would continue, but further due diligence was being conducted given a merger announcement earlier in the week. An analysis will be presented at a later meeting.

Ms. Spudich also discussed the Wellington Real Total Return Strategy (an underlying component of the custom Target Date Funds). The Strategy was placed on Watchlist status in May, 2016, following challenging performance and personnel. Since Steve Gorman, director of tactical asset allocation strategies and a partner, succeeded Rick Wurster as portfolio manager at the end of the first quarter 2016, the team has outperformed the Index by over six percentage points. Exposure to active managers have contributed the most to performance during this one-year time period.

Ms. Spudich of Capital Cities readdressed the upcoming personnel and philosophy/process changes to the BlackRock Large Cap Value Fund. Ms. Spudich presented the Committee with the results of the Broad Agency Announcement (BAA) for a Large Cap Value manager that was completed over the last quarter. There were 53 responses to the BAA, of which Capital Cities identified two finalists, Wellington Management Research Value and The Boston Company Dynamic Large Cap Value, given their strong qualitative and quantitative characteristics. **After careful analysis of the candidates, Mike Frick made a motion to replace the BlackRock Large Cap Value Fund, Zac Jackson seconded the motion. The vote passed unanimously. Mike Frick also made a motion to hire The Boston Company to manage the active Large Cap Value option in the Plans. Lisa Acobert seconded the motion. The vote to hire The Boston Company passed unanimously.**

Mr. Harvey of Capital Cities updated the Committee on the Watchlist status of the Wells Fargo Capital Growth Fund. It was noted that the Fund has displayed underperformance and asset outflows since being placed on Watchlist status. Mr. Harvey presented the Committee with the results of the Broad Agency Announcement (BAA) for a Large Cap Growth manager. There were 55 responses to the BAA, of which Capital Cities identified two finalists, American Century US Premier Large Cap Growth and T. Rowe Price US Large Cap Core Growth Equity, given favorable qualitative and quantitative characteristics. **Zac Jackson motioned that the Wells Fargo Capital Growth Fund be replaced. Mike Frick seconded. The vote was passed unanimously. Mike Frick made a motion to hire T. Rowe Price US Large Cap Core Growth Equity to manage the Large Cap Growth option in the Plans. Zac Jackson seconded the motion. The vote passed unanimously.**

Target Date Funds' Review

Ms. Spudich presented a review of the Target Date Funds' custom approach, glide path, construction, performance, and fees. The review was conducted under the scope of the Department of Labor's best practices for Plan fiduciaries and in light of the Indiana Deferred Compensation Plans' specific circumstances. It was noted that the custom construction was designed to address the needs of Plan participants and as a means of managing costs. As part of the discussion, Capital Cities recommended changing the Domestic Equity component from 80% Vanguard Institutional Index and 20% Vanguard Extended Markets Index to 100% Vanguard Total Stock Market Index. This change will not materially impact the Domestic Equity exposure and will allow a slight reduction in investment management fees. **Zac Jackson motioned to make this change. Mike Frick seconded the motion. The vote passed unanimously.** Ms. Spudich also discussed the custom glide path with the Committee. The Committee elected to defer voting on the roll down of the Target Date Funds. The glide path will be further addressed at the next meeting.

VII. Old Business

None.

VIII. New Business

State Auditor Tera Klutz mentioned that the Next Level Fund is being examined and will be addressed at a future meeting.

IX. Adjournment

There being no further business before the Committee, the meeting was adjourned at 1:10 p.m. The next meeting is August 17, 2017 at 9:00 a.m.