



MINUTES
PUBLIC MEETING
August 18, 2016
10:00 am
IGCS Conference Room 12

I. Call to Order/Roll Call

State Auditor Suzanne Crouch 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 Erin Sheridan, 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 Great-West Financial (Third Party Administrator to the Plan); Brian Doherty, Steve Gorman, Bridget Olsen, and Danny Sharp with Wellington Management (an Investment Manager); and, Tiffany Spudich, Corey Waddell and Tarek Zeni with Capital Cities, L.L.C. (Investment Consultants to the Committee).

II. Live-Streaming Disclaimer

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

III. Reading of the Minutes

Auditor Crouch asked for a motion to approve the minutes from the May 19, 2016 meeting. Mr. Frick moved to approve the minutes. Mr. Jackson seconded. The minutes were unanimously approved.

IV. Administrators Report

Ms. Sheridan discussed the upcoming participant dinners. Ms. Sheridan noted that a lot of work has gone into planning the dinners which will kick-off in Indianapolis on October 5th.

V. Investment Manager Presentation

The Wellington Real Total Return Strategy was placed on Watchlist status in May, 2016, following challenging performance and personnel changes. As part of the Committee's ongoing due diligence of the Fund, the Committee requested Wellington's presence at the August meeting for further discussion.

Before the beginning of Wellington's presentation, Mr. Zeni reminded the Committee that the Wellington Real Total Return Strategy is an underlying component of the Target Date Funds and attempts to provide diversification as part of the alternatives allocation. Mr. Zeni also noted that the Strategy was

implemented in the Plan in June, 2013.

Several individuals from Wellington Management attended the meeting:

- **Brian Doherty**, CFA: Investment Director, Multi-Asset Product Management
- **Steve Gorman**, CFA: Portfolio Manager and Director of Tactical Asset Allocation, Global Multi-Asset Strategies
- **Bridget Olsen**: Account Manager, Global Consultant Relations
- **Danny Sharp**: Director of Midwest Region; Business Development Manager

Mr. Doherty began the discussion by speaking about Wellington's long history in investing assets on clients' behalf. He proceeded to discuss the total assets managed as part of the Real Total Return Strategy. As of June 30, 2016, Strategy assets under management totaled approximately \$1.1 billion, comprising 16 clients.

In spite of the departure of Rick Wurster - the prior portfolio manager of the Real Total Return Strategy - effective April, 2016, Mr. Doherty reiterated that the Real Total Return's objective has not changed. The Strategy seeks to deliver 5% real return (CPI + 5%) with volatility between 6 and 10% and a low correlation to equities over a full market cycle. The team attempts to achieve this objective through market exposures, active strategy selection, and risk management. Mr. Doherty also touched upon the year-to-date and since inception underperformance of the Fund. He highlighted key detractors, including overweighting international equities (Europe and Japan) relative to the U.S. and Brazil. The underperformance of the Strategy has also been a notable driver of the overall underperformance of the Indiana Deferred Compensation Plans' custom Target Date Funds relative to its benchmark.

At the same time, Mr. Gorman proceeded to highlight the positive returns experienced by the Fund during the second quarter of 2016. The Strategy posted a return of 3.4% for the quarter, outperforming its benchmark and peers. Mr. Gorman then emphasized the process enhancements being incorporated into the Strategy, specifically around risk management. A more robust and disciplined drawdown control will be implemented, in addition to a renewed focus on actively managing volatility within a 6-10% range.

Throughout the discussion, there were several questions posed by the Committee revolving around personnel changes, investment performance, and Strategy process enhancements. The Committee agreed to maintain the Strategy on Watchlist status and continue closely monitoring performance and personnel. The Committee and Capital Cities will look for improved performance as a result of the process improvements and continue to assess the stability of the team post-Mr. Wurster's departure.

VI. Investment Consultant Report

Market Review

Mr. Waddell of Capital Cities began the meeting by providing an overview of the second quarter of 2016 performance. During the discussion, Mr. Waddell indicated that the second quarter was relatively uneventful until June 23rd, when British voters surprised investors by approving the Brexit referendum. Global bond yields responded to the Brexit vote by falling to record lows. The British pound fell to 31-year lows versus the U.S. Dollar in an intra-day swing of more than 10%. Global markets responded by erasing \$2 trillion in market capitalization in one day; however, much of that was restored in the subsequent trading days. Overall, domestic equity results ended the quarter positive despite the Brexit shock. Foreign developed equities were negative and lagged their U.S. counterparts. Fixed income results were positive across all styles during the second quarter, as yields fell across all U.S. Treasury

durations longer than three months.

Domini Social Equity

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. Ms. Spudich recommended that the Domini Social Equity Fund be placed on Watchlist status in light of recent underperformance and enhancements made to the portfolio construction process. A Watchlist Memo, along with a Socially Responsible Investing education piece, will be provided to the Committee during the November meeting. Mr. Jackson moved to approve Capital Cities' recommendation. Mr. Frick seconded.

IronBridge SMID

Ms. Spudich provided detail on the IronBridge SMID Fund that is currently on Watchlist status. Since being placed on Watchlist, the IronBridge SMID Fund has been more in favor, outpacing its benchmark by over four percentage points. Concurrently, both short- and long-term underperformance figures (last three- and five-year time periods) have markedly improved, placing the Fund's ranking in or near the top half of its peers. Capital Cities continues to closely monitor asset flows. IronBridge experienced \$90 million in net asset outflows during the second quarter. The Strategy has \$517 million in assets under management as of June 30, 2016.

Wells Fargo Capital Growth

Mr. Waddell provided detail on the Wells Fargo Capital Growth Fund. On May 26th, Tom Pence, the Fund's Senior Portfolio Manager and Managing Director for the Firm announced his intentions to retire on September 30th, 2016. Mr. Pence had managed the Fund since its inception. Capital Cities conducted a due diligence call with new lead Portfolio Manager, Mike Smith on July 23rd to discuss the upcoming changes. Mr. Waddell noted that Mr. Smith has been serving as a Co-Portfolio Manager on the Fund for the last five years and has worked for Mr. Pence for his entire 19-year career. While Mr. Pence's departure is material in nature, Capital Cities has comfort in Mr. Smith taking over lead Portfolio Management responsibilities. In addition to the management changes, the Fund has also experienced outflows over the past several years. Given the changes to the team and the outflows, Capital Cities recommended placing the Fund on Watchlist status. Capital Cities will be closely monitoring the new team dynamic and asset flows for the next four to six quarters. In addition, Mr. Waddell suggested having Mr. Smith and Wells Fargo attend the next Committee meeting in November. Mr. Frick moved to approve Capital Cities' recommendation. Ms. Acobert seconded.

Fiduciary Training

Capital Cities provided a fiduciary training presentation to the Committee.

Mr. Zeni began the meeting by highlighting the importance of fiduciary training and providing an overview of the presentation. While the Indiana Deferred Compensation Plans are not subject to ERISA, Capital Cities utilized ERISA guidelines as a best practices' framework for the discussion. During the discussion, Mr. Zeni indicated the current legal environment for plan sponsors. Mr. Zeni also defined the term fiduciary, highlighting it is a person who exercises control over Plan administration or Plan assets; renders investment advice for a fee; and/or has any discretionary authority or responsibility with respect to Plan administration.

Afterwards, Mr. Zeni provided an overview of the key four fiduciary responsibilities, including acting

solely in the participants' interests and carrying out duties prudently; following Plan documents; diversifying Plan investments; and paying only reasonable expenses. During the discussion on the first fiduciary responsibility, Mr. Zeni highlighted the fundamental duties of prudence, loyalty, and disclosure. Mr. Zeni also noted that the courts have referred to the duties of fiduciaries as those "highest known to law." Mr. Zeni then provided examples and case studies regarding each of the fundamental duties as part of the responsibility to act solely in the participants' interest and carrying out duties prudently.

Subsequently, Mr. Zeni discussed the second fiduciary responsibility of following Plan documents. Mr. Zeni discussed the importance of developing an Investment Policy Statement (IPS) to assist fiduciaries in developing a process-driven approach. Although an IPS is not required, Mr. Zeni mentioned that a well-designed and followed IPS provides potential evidence of a thoughtful approach to decision-making. Mr. Zeni also highlighted best practices in developing an IPS.

Afterwards, Ms. Spudich discussed the third and fourth fiduciary responsibilities of diversifying Plan investments and paying only reasonable expenses. Ms. Spudich first highlighted best practices in assessing the investment menu, including building for the long term, simpler can be better, offer appropriate core options, and cost is important. Ms. Spudich then proceeded to talk about each type of investment option more in length, providing definitions, examples, and best practices. Ms. Spudich ended the discussion on diversifying Plan investments with the important topic of monitoring investment managers. Capital Cities recommends a process-driven and comprehensive monitoring approach to reviewing a manager's quantitative (performance, fees, risk) and qualitative factors (organization, personnel, etc.).

Subsequently, Ms. Spudich discussed the fiduciary responsibility of paying only reasonable expenses. Ms. Spudich highlighted the main types of defined contribution fees, including investment management, administrative, individual service, and other fees. Ms. Spudich then discussed best practices for monitoring, benchmarking, negotiating and documenting defined contribution fees.

Summarizing the discussion, Mr. Zeni noted that the Committee follows a disciplined, decision-making process in executing their fiduciary responsibilities of acting solely in the participants' interests, following Plan documents, diversifying Plan investments, and paying only reasonable expenses.

VII. Old Business

None.

VIII. New Business

None.

VIII. Adjournment

There being no further business before the Committee, the meeting was adjourned at 11:47 a.m. The next meeting is November 17, 2016.