



**MINUTES
PUBLIC MEETING
November 14, 2019
9:00 a.m.
Statehouse Room 233**

I. Call to Order/Roll Call

State Auditor Tera Klutz called the meeting to order at 9:00 a.m. Committee members present were Joseph Habig (Appointee, Governor) and Mike Frick (Appointee, Treasurer of State). Staci Schneider (Chief of Staff to the Auditor of State), Vicky Hunt and Britton Stucker (Auditor of State); Dan Morrison, Stephanie O’Dear, Ann Mahrtd and Jaimie Beisel (Empower Retirement, Third Party Administrator to the Plans); and, Tiffany Spudich and Nathan Kinney (Capital Cities, L.L.C., Investment Consultant to the Committee) were also present.

II. Live-Streaming Disclaimer

The meeting was live-streamed. Mr. Kinney 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 15, 2019 meeting. **Mr. Frick moved to approve the minutes. Mr. Habig seconded. The minutes were unanimously approved.**

IV. Third Party Administrator’s Report

Dan Morrison, of Empower provided an update on Empower and the state of the defined contribution market. According to Mr. Morrison, Empower’s business is doing well, with client retention at 99%. Empower put a focus on the “face-to-face” experience with advisors this year; having four thousand meetings with 86% of these meetings having a positive outcome (e.g., increase contributions, changed investment election, etc.). Empower has also invested heavily into technology and AI with new personnel and products.

V. Administrator’s Report

Ms. Schneider announced Vicky Hunt’s last meeting from the Auditor of State’s Office, and thanked her for all of her support over the years. She then introduced Britton Stucker, who serves as the Office Manager and will be assuming Ms. Hunt’s responsibilities. Ms. Schneider also recapped the recent Indianapolis dinner on October 2nd. Attendance was down slightly, but the invitees were more concentrated and engagement was high. There have been several open houses that have been conducted with Empower and

all were productive. Ms. Schneider highlighted that Jaimie Beisel, of Empower, recently brought on three additional local units.

Ms. Schneider also detailed that the annual review of the Plan was conducted by Crowe. The bulk of the findings were among local plans, with these mainly being mismatched cash flows between the plans and Empower. The Auditor's Office is contacting the local plans to address the deficiencies.

VI. Investment Consultant Report

Ms. Spudich covered the Considerations and Observations' page of Capital Cities' 3Q19 Performance and Evaluation Report. She covered the recent Target Date Funds' transition, in which the State Street Target Retirement Funds replaced the custom Indiana Target Date Funds on September 6, 2019. As a result of the Target Date Funds' transition, Empower's recordkeeper fee was reduced by \$40,000 annually. Ms. Spudich detailed that the Indiana Stable Value Fund's new portfolio construction was finalized on September 6th, as well.

There were two investment manager updates from Capital Cities. Mark Denning, one of the American Funds EuroPacific Growth Fund's nine portfolio managers, departed Capital Group on September 8th. Denning managed approximately 7% of the holdings in the EuroPacific Growth Fund, due to the Fund's multi-manager team structure. Capital Group subsequently promoted Lara Pellini to a portfolio manager on the Fund. Pellini has 17 years of experience, all with Capital Group, and was most recently an equity analyst covering European, Eurasian, and Latin American luxury goods. Ms. Spudich also detailed that an investigative report was done into Denning's departure. As a result of the report, Capital Cities conducted an initial due diligence call with the Capital Group on October 24th. Capital Cities will continue to closely monitor the situation and report any significant findings.

In addition, the Indiana Stable Value Fund had an investment manager change with MetLife's Alfio Leone leaving the group. Portfolio Manager Andy Kronchnable will continue to lead Core-based strategies, drawing on the team's deep Structured resources, including Portfolio Managers Joseph Hondros and Kevin Hendrickson. Capital Cities will monitor personnel at MetLife, but the firm does not have any immediate concerns.

Market Review

Mr. Kinney presented the third quarter market overview. Mr. Kinney noted that, global markets were mixed for the 3rd quarter, as the Fed cut rates twice in the quarter and once more in October. The US economy has been in an expansionary phase for 125 consecutive months. However, signs of a growth slowdown domestically and abroad, amid trade uncertainty, are starting to be seen. In the financial markets, domestic large cap equities continued to outperform their small cap counterparts in the third quarter. Developed international equities underperformed domestic equities, posting negative returns for the quarter and the last twelve months, with the US dollar up ~4.5% over the last 12 months. Emerging Markets were the worst performing asset class for the quarter down ~4%. Fixed income returns were all positive for the quarter and year, except for EM debt and Non-dollar fixed income due in part to the rising US dollar. Fed rate cuts benefited duration sectors and helped see strong fixed income returns across the board, with the Bloomberg Barclays Aggregate Bond Index up 2.3% for the quarter and 10.8% over the last 12 months.

3Q19 Performance & Evaluation Report

Ms. Spudich presented the 3Q19 Performance & Evaluation Report to the Committee. As part of the discussion, Ms. Spudich highlighted the total Plan's assets stood at \$1,352,181,183, as of September 30, 2019. Ms. Spudich also noted the new layout for the Plan Summary page. A summary qualitative and

quantitative review (“stoplight grid”) of each of the investment options was also provided to the Committee. All of the investment options are in good/excellent standing, with the exception of the Fidelity Low-Priced Stock Fund. This Fund continues to be monitored for short-term underperformance, which was largely due to the Fund holding out-of-benchmark international stock holdings.

Investment Structure Review

Ms. Spudich noted that Capital Cities has delivered custom projects throughout the year, in addition to quarterly performance and evaluation reports, that are designed with the goal of exceeding the Committee’s fiduciary obligations. Key initiatives this year have included: reducing investment management and recordkeeper fees, aligning the Target Date Fund offering with peers, and increasing the Indiana Stable Value Fund’s investment flexibility.

In reviewing the Plan’s investment structure, Ms. Spudich noted that the Plan utilizes a proper default option (an age-appropriate Target Date Fund), offers a broad range of investment alternatives and allows participants to exercise control over their assets. Ms. Spudich reviewed each type of investment option with the Committee, including the “Do It For Me” (Tier I Target Date Options) and “Do It Myself” (Tier II Core Options and Tier III Specialty Options). The Plan’s new Target Date Funds, the State Street Target Retirement Funds, and the new Indiana Stable Value Fund’s portfolio construction were addressed, during the discussion. Lastly, defined contribution plan trends/topics were discussed, such as: the growing popularity of responsible investing investment options; managed account services; simplification of investment menus; and real return products.

VII. Old Business

None.

VIII. New Business

State Auditor Klutz introduced the idea of changing the annual review conducted by Crowe to an annual audit. This change would formalize the review process to give the Auditor’s Office more detailed information when working with participants and local plans. Mr. Habig and Mr. Frick had no objections to conducting an audit as opposed to a review. The Auditor’s Office will explore an audit in more detail and update the Committee next quarter. State Auditor Klutz also discussed new legislation that might be proposed that would change the notification to new state employees that they are enrolled in the Plan. This would enable participants to have quicker access to their Plan.

IX. Adjournment

There being no further business before the Committee, the meeting was adjourned at 9:46 a.m. **Mr. Frick motioned for adjournment. Mr. Habig seconded the motion.** The next quarterly meeting is February, 13, 2020 at 9:00 a.m.