



**MINUTES  
PUBLIC MEETING  
November 17, 2016  
10:00 am  
IGCS Conference Room A**

**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, Ethan Lawson 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 Plan); Michael Smith and Ozo Jaculewicz with Wells Fargo Asset Management (an Investment Manager); and, Tiffany Spudich and Corey Waddell with Capital Cities, L.L.C. (Investment Consultants to the Committee).

**II. Live-Streaming Disclaimer**

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

**III. Reading of the Minutes**

Auditor Crouch asked for a motion to approve the minutes from the August 18, 2016 meeting. Mr. Frick moved to approve the minutes. Ms. Acobert seconded. The minutes were unanimously approved.

**IV. Administrators Report**

In her last meeting serving as the Auditor of State, Ms. Crouch thanked the Committee for their service to the Plans. Auditor Crouch highlighted the oversight that had been conducted and the improved transparency, noting specifically quarterly meetings, investment manager due diligence, education and live-streaming.

**V. Investment Manager Presentation**

**Wells Fargo Capital Growth**

Mr. Waddell provided the Committee with a brief overview of the Wells Fargo Capital Growth Fund. The Wells Fargo Capital Growth Fund serves as the Domestic Large Cap Growth offering for participants in the Plans. The Fund is currently on Watchlist status given personnel changes. As part of the

Committee's ongoing due diligence of the Fund, the Committee requested Wells' presence at this meeting for further discussion.

Ozo Jaculewicz, Associate Portfolio Manager and Senior Portfolio Specialist, began the presentation with providing an introduction to the firm and the Wells Fargo Capital Growth Fund's lead Portfolio Manager, Michael Smith. During the discussion, Mr. Jaculewicz and Mr. Smith highlighted that the Wells Team is located in Indianapolis, Indiana, and is separate and independent from the retail banking division of Wells Fargo. Additionally, Mr. Smith indicated that the headlines surrounding the retail banking division had no impact to the investment management team of the Wells Fargo Capital Growth Fund. The investment management team is generally autonomous from the parent company, with the exception of compliance, trading and risk management support.

Mr. Smith also addressed the recent changes in personnel at the firm. Specifically, Tom Pence, the Wells Fargo Capital Growth Fund's Senior Portfolio Manager and Managing Director for the firm, had announced in May his intentions to retire on September 30, 2016. Mr. Smith was promoted to Lead Portfolio Manager at that time. Mr. Smith had 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. Chris Warner was also promoted to Portfolio Manager on the Strategy. There are no anticipated changes to the philosophy/process of the Wells Fargo Capital Growth Fund as a result of Mr. Pence's departure.

In total, the investment management team is comprised of 19 team members and oversees \$11 billion in assets across the market capital spectrum, focusing on the fastest growing companies in the United States. With regards to the Wells Fargo Capital Growth Fund, Mr. Smith explained that the Fund provides participants exposure to namely large-capitalization companies that are believed to have superior growth prospects as a capital appreciation option. The portfolio construction process is bottom-up and the team is seeking to identify companies with unique business models and strong potential for growth.

Mr. Smith also addressed the Wells Fargo Capital Growth Fund's recent underperformance that has been driven by the Strategy's style being out of favor. Likewise, Mr. Smith discussed his outlook for the portfolio, including the Fund's positioning for superior growth. In particular, Mr. Smith highlighted that the team's estimated forecasted earnings per share (EPS) growth of the portfolio's holdings exceeds that of street estimates.

## **VI. Investment Consultant Report**

### **Market Review**

Mr. Waddell continued the meeting by providing a brief update on the markets. In particular, Mr. Waddell noted that investor angst over the unexpected vote on Brexit was short-lived with a "risk-on" theme returning to the markets in July and leading to stock market highs for the Dow, NASDAQ and S&P 500 in August. Highly unusual election antics and continued geopolitical concerns on a number of fronts did not dampen investors' risk appetite or their quest for yield. Emerging markets equities posted their best quarterly return since 2012, outperforming developed markets, and high yield bonds were also top performers. Volatility was exceptionally low throughout the quarter as investors appeared to be somewhat complacent about continued accommodative policies from central banks and steady, albeit slow, economic growth. Further, the Fed continued to stay the course, leaving the fed funds rate unchanged at a target range of 0.25% - 0.50%. However, as of quarter-end, the markets were pricing in a roughly 50% likelihood of a rate hike before year-end.

## **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 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. During the August meeting, the Committee voted to place the Fund on Watchlist status in light of recent underperformance and enhancements made to the portfolio construction process. Ms. Spudich delivered the Watchlist Memo and noted the Fund's strong performance during the third quarter. Close monitoring of the Domini Social Equity Fund will continue.

Ms. Spudich also provided detail on the IronBridge SMID Fund that is currently on Watchlist status. Since being placed on Watchlist, the IronBridge SMID Fund's short-term performance (last three-year time period) has markedly improved, placing the Fund's ranking near the top third of its peers. However, the Strategy notably trailed during the third quarter as the Fund's lower risk/volatility holdings underperformed during a strong "risk-on" market and unusual company-specific negative events impacted some holdings. Capital Cities continues to closely monitor asset flows. IronBridge experienced \$86 million in net asset outflows during the third quarter. The Strategy has \$443 million in assets under management as of September 30, 2016.

In addition, Ms. Spudich discussed PIMCO. The PIMCO Total Return Fund and PIMCO Unconstrained Bond Fund are 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. Ms. Spudich highlighted the ongoing due diligence being conducted, including Capital Cities' meetings and calls with PIMCO and PIMCO's meeting with the Committee. Asset flows continue to be stabilizing. Total firm assets were \$1.55 trillion at quarter-end. Performance remains explainable and in-line with expectations. Close monitoring of PIMCO will continue.

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 recently presented to the Committee in August. The Wellington Real Total Return Strategy is an underlying component of the custom Target Date Funds and attempts to provide diversification as part of the alternatives allocation. The Strategy was implemented in the Portfolios in June, 2013. Ms. Spudich mentioned that the Strategy posted a robust return of 3.7% during the third quarter, handily outperforming its stated benchmark (Barclays US TIPS 1-10 year Index, +0.6%). Both market exposures (global equities and inflation-linked bonds) and active manager allocations contributed positively to performance. The Strategy will continue to be closely monitored on Watchlist status.

## **Investment Structure Review**

Ms. Spudich and Mr. Waddell presented the Investment Structure Review. As part of the discussion, Ms. Spudich noted that examining the investment menu is a key fiduciary duty. While not subject to ERISA, Ms. Spudich stated that Hoosier S.T.A.R.T. follows best practices by utilizing a proper default option (an age-appropriate Target Date Fund), offering a broad range of investment alternatives and allowing 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 Lifestyle Options) and "Do It Myself" (Tier II Core Options and Tier III Specialty Options).

Mr. Waddell spoke to the Committee about the Target Date Funds' construction. Specifically, Mr.

Waddell recommended that the Osterweis Fund, an underlying active equity component of the Target Date Funds, be replaced given upcoming personnel changes. Mr. Jackson moved to approve the recommendation. Mr. Frick seconded.

Mr. Waddell recommended transitioning the Osterweis Fund to the passively managed Vanguard Funds in order to reduce the Target Date Funds' expense ratios and tracking error relative to their benchmarks. Capital Cities will also be providing an annual review of the Target Date Funds' construction in 2017. Mr. Frick moved to approve the recommendation. Mr. Bastin seconded.

**VII. Old Business**

None.

**VIII. New Business**

None.

**IX. Adjournment**

There being no further business before the Committee, the meeting was adjourned at 11:37 a.m. The next meeting is February 23, 2017.