



**MINUTES  
PUBLIC MEETING  
May 17, 2018  
9:00 am  
Indiana State House, 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 Lisa Acobert (Appointee, Board of Finance); Dan Bastin (Appointee, Board of Finance); Zac Jackson (Appointee, Governor); and Mike Frick (Appointee, Treasurer of State). Also present were Staci Schneider (Chief of Staff to the Auditor of State) and Vicky Hunt (Auditor of State); Mike Paton (Barnes & Thornburg, Counsel to the Committee and the Administrator); Jaimie Beisel and Perry Christie (Empower Retirement, Third Party Administrator to the Plans); and, Tiffany Spudich and Peter Harvey (Capital Cities, L.L.C., Investment Consultant to the Committee).

**II. Live-Streaming Disclaimer**

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

**III. Reading of the Minutes**

State Auditor Tera Klutz asked for a motion to approve the minutes from February 22, 2018. **Mr. Bastin moved to approve the minutes. Mr. Frick seconded. The minutes were unanimously approved.**

**IV. Administrator's Report**

Ms. Schneider indicated that a review of state and local plans (25 plans in total) is being conducted to ensure they are following all the proper procedures. She also noted enhancements to the participant website. Additionally, Ms. Schneider explained that there have been 12 new plan adoptions, with three pending adoptions, that have the potential to reach 1,100 eligible participants. Lastly, Ms. Schneider provided an update on marketing campaigns and future participant outreach efforts.

**V. Investment Consultant Report**

**Manager Monitoring**

Ms. Spudich provided a qualitative and quantitative assessment of the investment options offered in the Plans. She noted the following during the discussion:

- Blackrock Inflation Protected Bond Fund (underlying strategy of the Indiana Inflation-Linked Bond Fund): Martin Hegarty, lead portfolio manager of the BlackRock Inflation-Linked Bond Portfolios, announced his departure from the firm on March 19<sup>th</sup>. He will be replaced by Dave

Rogal who will serve as a co-lead portfolio manager alongside Chris Allen. Capital Cities recommended placing the strategy on Watchlist status given the personnel change. Further analysis will be provided at the August 16, 2018 Committee meeting.

- Wellington Real Total Return (underlying component of the custom Target Date Funds): The strategy was placed on Watchlist status in May 2016, following personnel changes and challenging performance. Since Steve Gorman took over as lead portfolio manager at the end of the first quarter of 2016, the strategy has outperformed its index by greater than three percentage points. As a result, Capital Cities recommended removing Wellington from Watchlist status.
- Investment Menu Changes Update:
  - Ironbridge SMID Fund assets were successfully mapped to the Vanguard Extended Market Index Fund on March 14, 2018.
  - Domini Impact Equity Fund assets were successfully mapped to the Vanguard FTSE Social Index Fund on April 26, 2018.
  - A share class exchange for the Fidelity Diversified International Fund was successfully conducted on May 4, 2018.

### Market Review

Mr. Harvey provided the Committee with an update on the markets for the first three months of 2018. He noted that volatility was reintroduced to the markets as the S&P 500 saw its first quarterly decline since 2015. Growth sharply outperformed Value, while Small Caps slightly outpaced Large Caps during the first quarter. The strongest performance occurred within Small Cap Growth stocks which returned +2.3%, leading all other styles of domestic equity. Developed foreign equities (-1.5%) trailed their domestic counterparts for the second consecutive quarter. Emerging Markets (+1.5%) outpaced both domestic and developed markets for the period. All equity styles are still displaying positive returns over the last one-year period ending March 31, 2018. Turning to fixed income, returns were mostly negative across styles in the first quarter. The Federal Reserve raised the Fed Funds Rate (1.50% - 1.75%) in March and markets are anticipating two more rate hikes in 2018. The Bloomberg Barclays Aggregate Bond Index (-1.4%) posted a negative return for the period as interest rates rose. Fixed income is positive across all styles over the last one-year period ending March 31, 2018.

### Indiana Stable Value Analysis

Ms. Spudich presented a review of the Indiana Stable Value Fund, which is offered to participants on a stand-alone basis and as an underlying component of the Plans' custom Target Date Funds. As part of the discussion, Ms. Spudich provided education regarding the Indiana Stable Value Fund's objective which seeks to provide preservation of principal and stable income. A review of the Indiana Stable Value Fund's construction, performance and risk was done as well.

While the Indiana Stable Value Fund has exhibited strong relative performance and portfolio characteristics, Capital Cities is investigating the potential to reduce fees and increase investment flexibility given the improvements in the stable value environment. Ms. Spudich provided various portfolio construction alternatives and discussed current negotiations with the wrap providers. **As a result, the Committee voted to alter the portfolio construction of the Indiana Stable Value if wrap provider negotiations allowed to do so. Mr. Frick made a motion to increase the Fund's exposure to intermediate fixed income. Mr. Jackson seconded the motion. The vote passed unanimously. Mr. Frick also made a motion to conduct a manager search for the new allocation to intermediate fixed income. Mr. Jackson seconded the motion. The vote passed unanimously.**

## **VI. Old Business**

Ms. Klutz provided an update on the electronic communication policy. Mr. Paton noted that section seven from the original document had been eliminated. **Mr. Jackson made a motion to adopt the policy. Mr. Bastin seconded the motion. The vote passed unanimously.**

Ms. Klutz provided the Committee with a fee benchmarking report that was compiled by RVK, as part of the ongoing oversight of the Plans' fees.

## **VII. New Business**

Ms. Klutz updated the Committee on the Next Level Fund and noted that the Plans would not be offering the Fund.

## **IX. Adjournment**

There being no further business before the Committee, the meeting was adjourned at 9:55 a.m. **Mr. Frick motioned for adjournment. Mr. Jackson seconded the motion.** The next meeting is August 16, 2018 at 10:00 a.m.