



**MINUTES
PUBLIC MEETING
May 19, 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; and, Mike Frick, Deputy Treasurer. Also present were Erin Sheridan, Deputy Auditor of State and Ethan Lawson 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); Todd Thompson and Scott Rosener with Reams Asset Management (Investment Manager in Plan lineup); and, Joe Bill Wiley, 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. Mr. Lawson provided the live-streaming disclaimer.

III. Reading of the Minutes

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

IV. Administrators Report

Auditor Crouch directed Mr. Beisel to provide an update on the Plans' initiatives to update beneficiaries. Mr. Beisel noted that Empower is making contact with individuals via mailings to have participants elect beneficiaries for their Hoosier S.T.A.R.T. accounts.

Mr. Paton presented the Ethics and Service Policy that has been drafted for the Committee. The Policy is modeled after ERISA standards and general State ethical standards. Mr. Frick moved to approve the Policy going forward for all Committee members. Mr. Jackson seconded. The Policy was adopted unanimously.

V. Investment Manager Presentation

Mr. Zeni introduced Todd Thompson, Portfolio Manager and Scott Rosener, Fixed Income Analyst of Reams Asset Management. Mr. Thompson and Mr. Rosener provided an update on their firm, the fixed

income market environment, and the Scout Unconstrained Bond Fund. The Scout Unconstrained Bond Fund is an underlying component of the Target Date Funds and the Indiana Flexible Bond Fund.

During the presentation, Mr. Thompson noted that the firm's assets under management stand at \$21.9 billion (as of the first quarter of 2016), with the Unconstrained Strategy making up \$6.1 billion of those assets. The firm continues to enjoy organizational and personnel stability. In terms of the market environment, Mr. Thompson spoke about the conundrum facing fixed income investors in light of the low interest rate regime and unconventional monetary stimulus. Mr. Thompson highlighted that the Scout Unconstrained Bond Fund is not tethered to a traditional fixed income benchmark and instead focuses on best ideas, manager skill, and risk management to potentially maximize risk-adjusted return by pursuing relative value opportunities throughout all sectors of the fixed income market.

Mr. Thompson and Mr. Rosener then addressed performance, noting the Fund's last year, three-year, five-year, and since (Strategy) inception performance. Sources of total return during the last three- and five-year periods include structured securities and corporate credit (investment grade and high yield credit). Capital Cities and the Committee will continue to monitor the Fund.

VI. Investment Consultant Report

Market Review

Mr. Wiley of Capital Cities began the meeting by providing an overview of the first quarter of 2016 performance. During the discussion, Mr. Wiley indicated that the new year began with a quarter marked by heightened volatility. Investors saw the quarter nearly split in half between "risk off" and "risk on" sentiment. Oil prices were particularly volatile as prices hit multi-year lows on February 11th of \$26/barrel only to rebound nearly 50% to end the quarter. Stock price volatility (measured by VIX) spiked in early February. The S&P 500 suffered its worst start to a year ever falling over 10% through early February, only to rebound to close the quarter up 1.4%. Overall, returns from equity styles were mixed for the quarter. Citing concerns over global growth, the Fed elected to keep rates unchanged at the two meetings held during the quarter. Yields were also volatile as the 10-year U.S. Treasury yield fluctuated 64 bps during the quarter. Finally, currencies were also volatile as investors saw the U.S. Dollar weaken against most major currencies after a very strong 2015. Overall, fixed income returns were pretty strong during the first quarter.

Empower Due Diligence Visit

Mr. Beisel provided an update on the recent due diligence visit to Empower's headquarters in Denver, Colorado. Empower serves as the Plan's recordkeeper. Ms. Sheridan and Tiffany Spudich from Capital Cities both attended the onsite meetings. During the meetings, Empower provided an update on the organization, platform and legislative matters; conducted tours of the call center and data center; discussed marketing and communication efforts; addressed client service, participant counseling and advised assets; and, highlighted an annual Plan review.

Wellington Real Total Return

Mr. Zeni provided an update on the Wellington Real Total Return Strategy. The Strategy is an underlying component of the Target Date Funds and attempts to provide diversification as part of the alternatives allocation. Mr. Zeni reminded the Committee that the Strategy was implemented in the Plan in June, 2013. Mr. Zeni noted that the Strategy has recently experienced personnel changes and challenging performance, given its real return focus and market exposures.

Effective April 8, 2016, Rick Wurster - portfolio manager of the Strategy and Wellington's lifecycle products - resigned. Steve Gorman, director of tactical asset allocation strategies and a partner, will succeed Mr. Wurster as portfolio manager. Mr. Gorman previously served as the back-up portfolio manager and should provide continuity going forward. Separately, effective April 1, 2016, Wellington reduced fees from 58 basis points to 48 basis points.

In light of these events, Capital Cities recommended that the Committee place the Fund on Watchlist status. Mr. Frick moved to approve the Watchlist recommendation. Ms. Acobert seconded. The motion was approved unanimously. Wellington will be attending the August Committee meeting.

Domini Social Equity

Mr. Zeni noted the close monitoring of Domini in light of recent underperformance and reminded the Committee of Domini's presentation on February 18, 2016. As part of Capital Cities ongoing due diligence, Mr. Zeni noted that in March, 2016, Wellington (the Fund's subadvisor) added a new model into its quantitative process - factor timing model. This model is designed to enhance the process by evaluating the current state of the economy and forecasting which style (i.e., value or momentum) works best based on macroeconomic factors. Domini anticipates the incorporation of this new model will dampen the performance volatility and the Value bias within the Strategy. Most recently during the first quarter of 2016, the Domini Social Equity Strategy slightly outperformed the S&P 500.

During the conversation on the Domini Social Equity Strategy, a broader discussion took place about socially-responsible funds. Mr. Zeni noted the universe and evolution of socially-responsible investing, from ethical exclusions to environmental, social, and governance considerations. Equally, Mr. Paton discussed that fiduciaries are required to analyze social investments' performance the same as other investment options regardless of social screens. From the discussions, the Committee was interested in further exploring the socially-responsible investing landscape. In the November, 2016 meeting, Capital Cities will provide their findings after their survey of the current marketplace and landscape.

IronBridge SMID

Mr. Zeni provided detail on the IronBridge SMID Fund that is currently on Watchlist status. Since being placed on Watchlist status last year, IronBridge's strategy has been more in favor, outpacing its index by approximately three percentage points. Capital Cities continues to closely monitor asset flows. IronBridge experienced \$194 million in net asset outflows during the first quarter. The Strategy has \$576 million in assets under management.

Target Date Funds Update

Mr. Waddell reminded the Committee of the Target Date Fund Review that was conducted at the February meeting. He noted that in response to the review, the Committee voted to "roll-down" one year along the existing glide path and to enhance the Target Date Funds' benchmarks to more closely align with the underlying construction. The roll-down is set to occur in August and participants will be notified as part of the July newsletter.

Fee Analysis

Ms. Waddell also discussed the overall Plans' expenses, including those related to investment management, the recordkeeper and consultant. Mr. Waddell also gave some background on some recent fee scrutiny and litigation that has been occurring in the defined contribution marketplace. He noted that by following best industry practices in defined contribution space, that the Hoosier S.T.A.R.T. Plan is

positioned favorably within the fee landscape. He highlighted that each of the Plans' investment options have expense ratios that fall at or below the median of their respective peers. In addition, Mr. Waddell discussed that Hoosier S.T.A.R.T.'s recordkeeping fee is appropriate for the services provided and the Plans' demographics.

Manager Updates

Mr. Waddell provided brief commentary on each of the investment options, including their investment objectives and short- and long-term performance.

VII. Old Business

None.

VIII. New Business

None.

VIII. Adjournment

There being no further business before the Committee, the meeting was adjourned at 11:55 a.m. The next meeting is August 18, 2016.