



**MINUTES
PUBLIC MEETING
August 16, 2018
10:00 am
Indiana State House, Room 125**

I. Call to Order/Roll Call

State Auditor Tera Klutz called the meeting to order at 10:00 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 (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 May 17, 2018. **Mr. Frick moved to approve the minutes. Mr. Jackson seconded. The minutes were unanimously approved.**

IV. Administrator's Report

Ms. Schneider indicated an open house is being held on August 29th for participants. On September 19th an education dinner will be held in Lafayette. In addition, Ms. Schneider highlighted that four new plan adoptions of local units occurred over the last quarter.

V. Investment Consultant Report

Market Review

Peter Harvey of Capital Cities provided the Committee with a market review for the second quarter. Mr. Harvey highlighted that domestic equity markets continued to advance given positive economic data and strong corporate earnings. The S&P 500 was positive 3.4% for the quarter driven by growth-oriented stocks. Smaller capitalization stocks generally outperformed their large capitalization peers. Small Cap Value stocks, up 8.3% for the quarter, were the strongest performing equity style during the quarter. Both International Developed and Emerging Markets styles were negative for the quarter. The negative performance was largely driven by an appreciating US Dollar. In the Fixed Income environment, returns

were mostly muted for the period, with the exception of Non-Dollar and Emerging Market Debt being negative.

Manager Monitoring

Mr. Harvey provided a qualitative and quantitative assessment of the investment options offered in the Plans. As part of the discussion, Mr. Harvey discussed the PIMCO Unconstrained Bond Fund, which is an underlying component of the Indiana Flexible Bond Fund. In particular, Capital Cities was notified that Bill De Leon (Managing Director and Global Head of Portfolio Risk Management) has resigned from PIMCO. Sudi Mariappa (Managing Director, Portfolio Manager) was promoted to the role of Managing Director and Global Head of Portfolio Risk Management and has stepped down from his role on the Unconstrained Bond Fund portfolio management team. Capital Cities conducted further due diligence into the changes and does not believe they materially impact the Fund given the team structure and breadth of the team. Additionally, it was announced that, effective July 30, 2018, the PIMCO Unconstrained Bond Fund was renamed the PIMCO Dynamic Bond Fund. There are no planned changes to the investment process that coincide with this name change.

Investment Structure Review Presentation

Ms. Spudich presented an Investment Structure Review presentation. As part of the discussion, Ms. Spudich noted that Hoosier S.T.A.R.T. 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 Lifestyle Options) and “Do It Myself” (Tier II Core Options and Tier III Specialty Options).

As part of the discussion, Ms. Spudich presented a review of the Indiana Target Date Funds’ custom approach, glide path, construction, performance and fees. Capital Cities recommended a Target Date Funds’ Survey be conducted if the Committee’s unique preferences have or may have changed. **Mr. Jackson made a motion to conduct a Target Date Funds’ Survey. Mr. Frick seconded the motion. The vote passed unanimously.**

As follow up to the last Committee meeting, Capital Cities has been working with Logan Circle (Global Wrap Manager) of the Indiana Stable Value Fund regarding the potential to reduce fees and increase investment flexibility given the improvements in the stable value environment. Ms. Spudich provided the Committee with an update. In particular, the total wrap fee is expected to be reduced by 0.4 bps. Discussions will continue regarding the removal of wrap coverage for Tier II (Fidelity MIP II Stable Value Fund). Capital Cities recommended readdressing the various portfolio construction alternatives in order to continue negotiations with the wrap providers. **Mr. Jackson made a motion to move to decrease the allocation 15 percentage points from Tier II (Fidelity MIP II) to Tier III (Logan Intermediate). Mr. Frick seconded the motion. The vote passed unanimously.**

Ms. Spudich also provided a Watchlist Update on the BlackRock Inflation Protected Bond Fund (the underlying manager of the Indiana Inflation-Linked Bond Fund). Capital Cities recommended replacing BlackRock Inflation Protected Bond Fund as the Plans’ Inflation-Linked Bond option given the recent departure of long-standing portfolio manager, Martin Hegarty. **Mr. Jackson made a motion to terminate BlackRock Inflation Protected Bond Fund. Mr. Bastin seconded the motion. The vote passed unanimously.** An analysis was also provided regarding active vs. passive Treasury Inflation Protected Bonds (TIPS). **Mr. Jackson made a motion to conduct a public manager search in order to transition from an active strategy to a passive TIPS’ mandate (Blmbg BC US TIPS Index strategy) in the Indiana Inflation-Linked Bond Fund. Mr. Frick seconded the motion. The vote passed unanimously.**

Lastly, Ms. Spudich discussed that the Plans have become eligible for less expensive share classes over the last quarter, which will reduce investment management expenses. In addition, Wellington is consolidating share classes which may reduce future operating expenses. **Mr. Frick motioned to transition to the less expensive share classes of Carillon Reams Unconstrained Bond, Vanguard Institutional Index and T. Rowe Price Blue Chip Growth, along with moving to the Series 3 share class of Wellington Real Total Return. Mr. Bastin seconded the motion. The vote passed unanimously.** Capital Cities also recommended conducting a Passive Manager Survey given recent fee compression in the industry. **Mr. Frick motioned to conduct a Passive Manager Survey. Mr. Bastin seconded the motion. The vote passed unanimously.**

VI. Old Business

None.

VII. New Business

None.

IX. Adjournment

There being no further business before the Committee, the meeting was adjourned at 11:08 a.m. **Mr. Jackson motioned for adjournment. Mr. Frick seconded the motion.** The next meeting is November 15, 2018 at 9:00 a.m.