



MINUTES
PUBLIC MEETING
August 17, 2017
9:00 am
IGCS Conference Room 12

I. Call to Order/Roll Call

State Auditor Tera Klutz called the meeting to order at 9:00 a.m. Other Committee members present were Lisa Acobert, Appointee of Board of Finance; Dan Bastin, Morgan County Auditor; and, Mike Frick, Deputy Treasurer. Also present were Staci Schneider, Deputy Auditor of State, and Vicky 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 Plans); and, Tiffany Spudich, Joe Bill Wiley and Peter Harvey with Capital Cities, L.L.C. (Investment Consultant to the Committee).

II. Live-Streaming Disclaimer

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

III. Reading of the Minutes

State Auditor Tera Klutz asked for a motion to approve the minutes from the May 25, 2017 meeting. Mr. Frick provided minor updates to the minutes. **Mr. Frick moved to approve the minutes with the updates incorporated. Ms. Acobert seconded. The minutes were unanimously approved.**

IV. Administrator's Report

State Auditor Tera Klutz informed the Committee of her onsite visit at Empower to do recordkeeper due diligence.

V. Investment Consultant Report

Market Review

Mr. Wiley provided a review of second quarter 2017 performance across the broad equity and fixed income markets. In particular, Mr. Wiley detailed that investors rode the risk-on sentiment into the second quarter. US Equity was all positive, led by growth sectors. Non-US Equities, including Emerging Markets, experienced strong returns. Fixed Income returns were positive but muted on a broad basis; High Yield and Non-Dollar outperformed.

Manager Monitoring

Ms. Spudich provided a qualitative and quantitative assessment of each of the investment options offered in the Plans. As part of the discussion, she provided the Committee with an update on The Boston Company. In particular, Adam Joffe was appointed as the new Chief Executive Officer of The Boston Company Asset Management on August 3rd. Jennifer Cassidy was appointed as the Chief Administrative Officer at the same time. Ms. Cassidy will continue to hold her previous role as the Chief Compliance Officer. Both Ms. Cassidy and Mr. Joffe will split the responsibilities of the Chief Operating Officer. It is not anticipated that these changes will have any impact on The Boston Company Dynamic Large Cap Value team or strategy that is slated to replace the BlackRock Large Cap Value Fund within the Indiana Deferred Compensation Plans.

Mr. Harvey gave an update on Logan Circle Partners (underlying manager of the Indiana Stable Value Fund). Fortress Investment Group announced that the firm would be selling Logan Circle to MetLife prior to the close of its merger with Softbank. Key personnel of Logan Circle have signed three-year employment contracts with MetLife and are expected to play a major role in MetLife's move into managing outside capital. Capital Cities views this development as a net positive as it appears to be a better long-term fit and Logan Circle will maintain complete control of the investment process. Nonetheless, Capital Cities will continue to monitor the ownership change.

Ms. Spudich provided an update on the watchlist status of Wellington Real Total Return (underlying strategy of the custom Target Date Funds), noting that the Strategy had outperformed its benchmark by 457 basis points since the portfolio manager change at the end of the first quarter 2016. Capital Cities recommended continuing to closely monitor the Strategy on watchlist status.

Ms. Spudich also updated the Committee on the progress of the upcoming investment option changes. Specifically, the Committee voted to replace the BlackRock Large Cap Value Fund with The Boston Company Dynamic Large Cap Value Fund during the May 25, 2017 meeting. The Committee also voted to replace the Wells Fargo Capital Growth Fund with the T. Rowe Price Blue Chip Growth Trust (US Large Cap Core Growth Equity Strategy). Separately, the Committee voted to replace Vanguard Instl Index and Vanguard Extended Markets Index within the custom Target Date Funds with Vanguard Total Stock Market Index in order to slightly reduce fees. All changes are anticipated to occur on or about November 17, 2017.

In addition, Ms. Spudich gave a watchlist update for the Domini Impact Equity Fund. The Strategy was placed on watchlist in August 2016 given short-term performance and portfolio construction changes. During the May 25th meeting, the Committee requested that Capital Cities explore alternative peer groups and benchmarks to evaluate performance given the unique socially responsible portfolio construction. Capital Cities presented the Committee alternative peer groups and benchmarks for the Fund, but ultimately recommended removing the Domini Impact Equity Fund from the investment menu given continued deterioration of the Fund's short-term performance. **Mr. Frick made a motion to freeze the Fund to new investments. Ms. Acobert seconded the motion. The vote passed unanimously. Mr. Frick made a motion to conduct a public search for a passive socially responsible equity fund to replace the Domini Impact Equity Fund. Ms. Acobert seconded the motion. The vote passed unanimously.**

Mr. Harvey updated the Committee on the watchlist status of the IronBridge SMID Cap Fund. IronBridge has been on watchlist status since May 8, 2015 given underperformance and asset outflows. In May of 2017, Capital Cities conducted an onsite meeting at IronBridge's office as part of their ongoing due diligence. Following the onsite meeting, IronBridge announced that the firm was being acquired by

RMB Capital. After careful analysis, Capital Cities recommended replacing the Fund given the organizational change. In particular, Capital Cities recommended terminating IronBridge and mapping the assets to the Vanguard Extended Market Index Fund (offered as a new stand-alone investment option). The Vanguard Extended Market Index Fund has historically been offered in the Plans as only an underlying component of the Plans' custom Target Date Funds. **Mr. Bastin made a motion to terminate IronBridge SMID Cap Fund and map the assets to the Vanguard Extended Market Index Fund. Mr. Frick seconded the motion. The vote passed unanimously.**

Target Date Funds' Review

Ms. Spudich presented a review of the Target Date Funds' custom approach, glide path, construction, performance, and fees. As part of the review, Ms. Spudich recommended that the Target Date Funds "roll down" one year along the existing glide path, which is in-line with the Funds' objective of becoming more conservative over time for participants. **Mr. Bastin made a motion to proceed with the scheduled roll down of the glide path. Mr. Frick seconded the motion. The vote passed unanimously.**

VI. Old Business

Mike Paton outlined considerations for the formation and implementation of the Next Level Fund. **Mr. Bastin made a motion to create a working group, consisting of State Auditor Tera Klutz and Mike Paton, with Mike Frick serving as an alternate in the event of Ms. Klutz' absence. Ms. Acobert seconded the motion. The vote passed unanimously.**

VII. New Business

None.

IX. Adjournment

There being no further business before the Committee, the meeting was adjourned at 10:45 a.m. The next meeting is November 16, 2017 at 10:00 a.m.