



**MINUTES
PUBLIC MEETING
February 18, 2016
10:00 am
IGCS Conference Room 5**

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 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); Carole Laible, Ariel Slaton, and Tessie Petion with Domini Social Investments (Investment Manager in Plan lineup); 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 November 19, 2015 meeting. Mr. Frick moved to approve the minutes. Mr. Jackson seconded. The minutes were unanimously approved.

IV. Investment Manager Presentation

Ms. Spudich introduced Carole Laible, CEO, Ariel Slaton, Institutional Client Relationship Associate, and Tessie Petion, Vice President of Domini. Ms. Laible provided an educational presentation to the Committee regarding social investing. During the presentation, Ms. Laible, Ms. Slaton and Ms. Petion outlined the different styles of social investing and provided examples of social screens that Domini employs. Domini seeks to identify companies that add value to society and are forward-looking with better management. They also described Domini's relationship with the Fund's subadvisor, Wellington Management.

Ms. Laible addressed the Fund's underperformance over the last three- and five-year time periods. She noted that underperformance over the last three- and five-year time periods has been driven by the Value bias in the quantitative model of the Fund's subadvisor (Wellington), as Value stocks have notably underperformed over the last year. The Fund's performance will continue to be closely monitored by Capital Cities and the Committee.

V. Administrators Report

Auditor Crouch provided the Committee with the key accomplishments for 2015, including live-streaming meetings to increase transparency, record-breaking participant dinners' attendance and the addition of 15 local subdivisions to Hoosier S.T.A.R.T. Goals for 2016 include webinars, a retirement app and Committee educational training.

Mr. Paton indicated that an Ethics and Service Policy has been drafted for the Committee. The Policy is modeled after ERISA standards and general State ethical standards. Additionally, Mr. Paton noted that the Matching Plan had been submitted to the IRS for review and approval.

VI. Investment Consultant Report

Market Review

Mr. Waddell of Capital Cities provided a presentation to assist the Committee in reviewing 2015 year-end performance. During the discussion, Mr. Waddell indicated that returns for both equity and fixed income were relatively flat during 2015, as the year was notably marked by macroeconomic events, including further oil price declines, China's economic environment, currency volatility, and central bank interest rate policies. Looking forward to 2016, Mr. Waddell discussed Capital Cities' expectations that China, crude oil, central banks, credit and the campaign will be tangible issues affecting the capital markets.

Ms. Spudich then highlighted with the Committee the custom projects Capital Cities will be delivering throughout the year, in addition to their quarterly performance and evaluation reports, to assist the Committee in meeting their fiduciary requirements. These projects include a fee analysis, an investment structure review and an Investment Policy Statement review. In addition, fiduciary training has been scheduled for the August meeting.

Target Date Fund Review

Ms. Spudich discussed Hoosier S.T.A.R.T.'s investment lineup, specifically the custom Target Date Funds. Ms. Spudich highlighted the role of the Target Date Funds and also reminded the Committee that the Funds serve as the default option for plan participants. Ms. Spudich addressed the glide path of the Funds. Specifically, Capital Cities recommended that the Funds glide down one year along the existing glide path which will provide a relatively smooth transition for participants. Mr. Frick moved to approve the recommendation. Mr. Bastin seconded.

Additionally, Ms. Spudich mentioned that the portfolio construction was redesigned in June of 2013 by expanding the opportunity set of the Target Date Funds to provide better overall diversification and downside protection, given the challenges of the current market environment. The conservative glide path has caused underperformance relative to off-the-shelf peers given the strong up-market experienced during this time period. Additionally, the more defensively positioned managers within the Target Date Funds have generally detracted relative to their benchmarks. Overall, performance is in line with expectations given the conservative construction and glide path of the Target Date Funds. It is anticipated that the Funds will provide better downside protection than their benchmarks and peers during times of market volatility and/or distress.

While the Funds' underperformance relative to the broadly constructed benchmarks has been explainable, Capital Cities recommended the broad-based benchmarks be enhanced to better reflect the nature of US Equities, International Equities and Diversifying Assets that are present within the Funds. Mr. Bastin

moved to approve Capital Cities' recommendations. Mr. Frick seconded. Details regarding the benchmark enhancements and Target Date Funds' roll down will be properly communicated to participants.

Manager Updates

Mr. Waddell provided brief commentary on each of the investment options, including their investment objectives and short- and long-term performance. Of particular note, Mr. Waddell discussed Domini Social Equity given their earlier presentation. Mr. Paton noted that the Department of Labor has issued guidance on social investments. Specifically, he discussed that fiduciaries are required to analyze social investments' performance the same as other investment options regardless of social screens. Ms. Spudich noted the close monitoring of Domini's performance currently being conducted in light of recent underperformance.

Mr. Waddell also provided detail on the IronBridge SMID Fund that is currently on Watchlist status. Mr. Waddell noted that asset flows have continued to stabilize and only \$20 million in net outflows occurred in the fourth quarter. The Strategy currently has \$776 million in assets under management. Performance for the quarter was positive, but trailed its benchmark due to unfavorable security selection in the consumer discretionary and healthcare sectors.

Lastly, PIMCO was addressed. The PIMCO Total Return and Unconstrained Bond Funds were placed on Watchlist status in February of 2014 by the Committee. The PIMCO Unconstrained Bond Fund serves as an underlying component of the Indiana Flexible Bond Fund, while the PIMCO Total Return Fund is offered to participants on a stand-alone basis. Mr. Waddell discussed that the Watchlist was prompted by the departures of Mohamed El-Erian, Co-CIO, and Bill Gross, Founder and Managing Director of PIMCO, in 2014. Despite the personnel departures, PIMCO continues to be well-resourced with highly regarded investment professionals. During the fourth quarter, there was one notable departure, Vineer Bhansali who was a Managing Director of PIMCO's Quantitative Portfolio team. Mr. Waddell noted that this does not materially impact the Total Return or Unconstrained Strategies. Assets under management at the firm remained relatively stable at \$1.43 trillion. The PIMCO Total Return and Unconstrained Bond Funds posted positive returns in the fourth quarter when most bond indices were negative. Capital Cities does not recommend any action at this time. Nevertheless, Capital Cities, L.L.C. and the Committee will continue to closely monitor PIMCO on Watchlist status. Additionally, a contingency public manager search has been conducted in the event a replacement is required.

Annual Report

Mr. Waddell also noted that Capital Cities had prepared an Annual Report of the investment options for the Committee's review. The Report details further quantitative analysis of the investment options offered in the Plans.

VII. Old Business

None.

VIII. New Business

None.

VIII. Adjournment

There being no further business before the Committee, the meeting was adjourned at 11:45 a.m. The next meeting is May 19, 2016.