



**MINUTES
PUBLIC MEETING
November 17, 2022
9:00 a.m.
IGCS – Conference Room D**

I. Call to Order/Roll Call

State Auditor Tera Klutz called the meeting to order at 9:00 a.m. Committee members present were Mike Frick (Appointee, Treasurer of State), Joseph Habig (Appointee, Governor), Nancy Marsh (Appointee, Board of Finance), and Deanna Oware (Appointee, Board of Finance). Kim Diller, Emily Boesen, Britton Stucker, and Mark Hawkins (Legislative Affairs) (Auditor of State); Mike Paton (Barnes & Thornburg, Counsel to the Committee and the Administrator); Kevin Mitchell, Michael Burkhart, and Mike Studebaker (Nationwide, Third-Party Administrator to the Plans); and Tiffany Spudich and Susan Somers (Capital Cities, L.L.C., Investment Consultant to the Committee) were also present.

II. Live-Streaming Disclaimer

The meeting was live-streamed. Ms. Somers, of Capital Cities, provided the live-streaming disclaimer.

III. Approval of the Previous Minutes

State Auditor Tera Klutz asked for a motion to approve the minutes from the August 11, 2022 meeting. **Ms. Marsh moved to approve the minutes. Mr. Habig seconded. The minutes were unanimously approved.**

IV. Administrator's Report

State Auditor Klutz informed the Committee that the 2021 Audited Financial Report has not been finalized. The Auditor's Office is completing final requests from Crowe LLP. State Auditor Klutz discussed that the Hoosier START Deferred Compensation Plan Committee will be included as a fiduciary activity on the State of Indiana Accumulated Financial Report, given the name of the Plan, the Trust is the State of Indiana (Deferred Compensation Committee of the State of Indiana), and the Committee has control of the assets. Once the Audited Financial Report has been completed, State Auditor Klutz will call a Committee meeting to review the results.

Mr. Mitchell, of Nationwide, reported that Nationwide's retirement specialists have attended several benefit fairs, including INDOT regional benefits, state park picnics, and political sub-division benefit fairs. Nationwide also had speaking roles at conferences, such as the Association of Indiana Counties Conference

and Judicial and Department of Revenue Conferences. Current initiatives include advertising the educational webinars, a beneficiary campaign, and promoting the Plans for adoption to political sub-division through mailers, webinars, phone calls, and conferences. The most recent adoption was the City of West Lafayette. Mr. Mitchell also announced Nationwide has hired an office administrator, Kyla Combs.

Mr. Burkhart, of Nationwide, presented a review of Nationwide's first full quarterly report, as the new Third-Party Administrator to the Plans. Mr. Burkhart noted that their reporting package includes both the 401(a) and 457(b) Plans, with sections that detail individual information on the 401(a) and 457(b) Plans, a section that includes State employee information, and lastly a section that details information for political sub-divisions that have adopted the Plan(s). Mr. Burkhart highlighted that assets at the end of the third quarter were \$1,544,483,835 with 62,727 participants, and an average balance of \$24,481. There were 2,502 new enrollments over the course of the third quarter with contributions totaling almost \$32,704,021 and rollovers/transfers in totaling \$1,829,172. The transfers from Empower to Nationwide are included and figures will normalize since the conversion has been completed. Distributions for the third quarter totaled \$34,912,623 with \$15,041,860 in outgoing rollovers/transfers out. Mr. Burkart noted that this is common after a conversion and tends to taper off after a few quarters.

Mr. Burkhart reported that over 20% of participants have signed up for an online account and 9% of participants are utilizing My Interactive Retirement Planner. Mr. Burkhart also noted that the ProAccount managed platform ended the third quarter with \$485,027,791 in assets with approximately 19% of participants utilizing the service. Mr. Burkart mentioned that 4% of participants have opted in for the eDelivery service, while 64% of participants remain in the courtesy period and are receiving both paper and electronic statements. Once the courtesy period ends, the default method will be electronic delivery unless the participant opts out of that method.

V. Investment Consultant's Report

3Q22 Performance & Evaluation Report

Capital Cities presented the Considerations/Observations' pages of the 3Q22 Performance & Evaluation Report. Ms. Spudich detailed that the T. Rowe Price Blue Chip Growth Fund fell to the bottom quartile of peers over the last three- and five-year time periods and is trailing its benchmark. As a result, the Fund has been placed on Watchlist status for short- and long-term performance. Capital Cities will deliver a Watchlist memo at the February 2023 meeting.

Ms. Spudich also noted that Capital Cities conducted a due diligence call with PIMCO on October 13, 2022. Scott Mather, Managing Director and Portfolio Manager on the Total Return strategy, announced a personal leave of absence on October 3, 2022. The Strategy is supported by a team with deep experience, including co-managers Mohit Mittal and Mark Kiesel. PIMCO also named two additional portfolio managers, Qi Wang and Dan Ivascyn. Capital Cities will continue to monitor personnel.

In addition, Ms. Spudich indicated that Capital Cities conducted a due diligence call with MetLife on October 25, 2022. On September 29th, Andy Kronschnabel, head of Investment Grade Credit for MetLife Investment Management, abruptly informed MetLife of his intention to leave the company. Josh Lofgren, Investment Grade Credit Portfolio Manager, assumed the day-to-day portfolio management responsibilities. Capital Cities will continue to monitor personnel.

Ms. Spudich also noted that cash flow figures were obtained for the third quarter and the 3Q22 Performance & Evaluation Report was updated to reflect the market movement and cash flow information.

Ms. Spudich presented the third quarter market review. Ms. Spudich stated that markets continued to

struggle amid high inflation and aggressive rate hikes. Small Cap held up better than Large Cap, and Growth held up better than Value. Small Cap Growth (+0.24%) was the strongest performing style during the quarter. International stocks generally underperformed their domestic counterparts. For the one-year period, all equity styles posted negative returns. Turning to fixed income, the Federal Reserve raised the Federal Funds Rate to a range of 3.0% - 3.25% during the third quarter, with an additional 0.75% in November. Cash was the only positive style across fixed income in the third quarter. The Bloomberg Aggregate Bond Index (-4.8%) finished sharply negative and posted the worst one-year return since the Index's inception. All styles of fixed income are showing negative returns for the one-year period, except Cash.

Turning to the Plan Summary Page, a summary qualitative and quantitative review ("stoplight grid") of each of the investment options was provided to the Committee. All the investment options are in good/excellent standing, except T. Rowe Price Blue Chip Growth. As previously discussed, Capital Cities placed the Fund on Watchlist status and will deliver a memo at the February 2023 meeting.

Ms. Spudich highlighted that the total Plans' assets stood at \$1,544,483,835, as of September 30, 2022, with 19% of the assets in the Plans' default option, the State Street Target Retirement Funds, and the remaining 81% in the Plans' individual options that allow participants to build their own diversified portfolio. Ms. Spudich detailed the State Street Target Retirement Funds returned between -4.5% (Retirement Income Fund) and -6.8% (2065 Fund) for the quarter.

Investment Structure Review

Ms. Somers provided a presentation to assist the Committee in reviewing the Plans' investment menu. Ms. Somers noted that Capital Cities delivered custom projects throughout the year that were designed with the goal of exceeding the Committee's fiduciary obligations. A key fiduciary responsibility is to provide a diversified investment menu; thus, the Plans' investment menu and trends in the defined contribution industry were examined.

In reviewing the Plans' investment structure, Ms. Somers detailed that the Plans utilize a proper default option (age-appropriate Target Date Funds), offer a broad range of investment alternatives, and allow participants to exercise control over their assets. Ms. Somers reviewed each type of investment option with the Committee, including the Tier I Target Date Options ("Do It For Me") and Tier II Core and Tier III Specialty Options ("Do It For Myself").

As part of the discussion, Ms. Somers reported that Capital Cities conducted a due diligence call with State Street regarding the State Street Target Retirement Strategy Funds on November 1, 2022. She also notified the Committee that State Street will be presenting during the February 2023 meeting.

Ms. Spudich discussed the Core and Specialty Options, noting that the Plans' offer options in all major asset classes. Ms. Spudich also detailed that the Plans could be enhanced by offering both an active and passive option in each major asset class, which would require adding a Core Bond Index Fund and an International Equity Index Fund to the investment menu. Capital Cities recommended surveying the Plans' passive fees and to consider adding Core Bond Index and International Equity Index options. **Mr. Habig motioned to consider adding Core Bond Index and International Equity Index options and surveying the Plans' passive fees. Mr. Frick seconded. The recommendation was unanimously approved.** Public index searches will be issued with findings presented at the May 2023 Committee meeting.

Ms. Spudich also discussed the Indiana Stable Value Fund which serves as a low-risk option, seeking to provide participants with preservation of principal and stable income. The Fund was custom built for the Plans with diversified manager and wrap provider construction (MetLife Core 65%, Fidelity MIP II 30%, and Dreyfus Government Cash Management Fund 5%). A due diligence call was conducted with MetLife

on October 25, 2022 and no enhancements are currently recommended given previous portfolio construction changes and wrap provider fee negotiations.

Defined contribution plan trends/topics were also discussed. Ms. Spudich provided an educational piece on the retirement income space. In particular, she highlighted products that attempt to provide participants with a solution for decumulation (when participants spend down their retirement savings). Ms. Spudich noted that Capital Cities continues to closely monitor the retirement income space in anticipation of increased interest from plan sponsors and participants; however, Capital Cities is not recommending any changes to the Plans at this time.

VI. Legal Update

Mike Paton, of Barnes & Thornburg, noted that the Committee previously approved an amendment allowing two withdrawals per year after age 59 ½; however, senior judges who were retired, but have returned to work were grandfathered for 2022. Beginning in 2023, those participants will be restricted and allowed only two withdrawals per year. This change was memorialized within the Amendment. Mr. Paton also noted that the Plan document has been restated with all changes, including prior amendments which were added to the appropriate sections. Mr. Paton requested that the Committee sign the restated Plan document.

Mr. Paton also discussed the option of creating a Plan Summary document for participants, which is an overview of Plan information. Mr. Paton has drafted this document and will share it with Nationwide.

VII. Old Business

None.

VIII. New Business

None.

IX. Adjournment

With no further business before the Committee, the meeting was adjourned at 10:06 a.m. **Mr. Frick motioned for adjournment. Mr. Habig seconded the motion.** The next quarterly meeting is scheduled for Thursday, February 23, 2023, at 9:00 a.m.