



MINUTES
PUBLIC MEETING
March 3, 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), and Deanna Oware (Appointee, Board of Finance). Staci Schneider (Chief of Staff to the Auditor of State); Emily Boesen and Britton Stucker (Auditor of State); Mike Paton (Barnes & Thornburg, Counsel to the Committee and the Administrator); Ann Mahrtdt (Empower Retirement, Third-Party Administrator to the Plans); Kevin Mitchell and Mike Studebaker (Nationwide, upcoming Third-Party Administrator to the Plans); and, Tiffany Spudich, Susan Somers and John Williams (Capital Cities, L.L.C., Investment Consultant to the Committee) were also present.

II. Live-Streaming Disclaimer

The meeting was live-streamed. Mr. Williams, 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 November 18, 2021 meeting. **Mr. Habig moved to approve the minutes. Mr. Frick seconded. The minutes were unanimously approved.**

IV. Administrator's Report

Ann Mahrtdt, of Empower, indicated that the Vanguard Treasury Money Market Fund is now utilized in the Unallocated Plan Account, as previously approved by the Committee. The Unallocated Plan Account pays the Auditor of State Plan-related expenses. The Vanguard Treasury Money Market Fund will not be an available investment option to participants.

Ms. Mahrtdt reported that there were 3,691 total meetings with participants in 2021, including 740 meetings in the fourth quarter. In 2021, 11 webinars were conducted with 2,163 participants in attendance. Three, of which, were conducted in the fourth quarter. Year-to-date, 384 participant meetings were completed, along with two webinars. High “net promoter scores” were received for all meetings.

Ms. Mahrtdt thanked the Committee for Empower's relationship with the Plans. Similarly, State Auditor Tera Klutz discussed her appreciation of Empower's service.

Ms. Schneider provided an update on the Third-Party Administrator transition. Nationwide will serve as the new Third-Party Administrator for the State of Indiana Public Employees' 457(b) and 401(a) Plans, replacing Empower. The blackout period begins March 25th and will end April 11th. Ms. Schneider reported that files are being tested, webinars have recently started, and a transition guide was distributed to participants. State Auditor Tera Klutz thanked Ms. Schneider and Ms. Boesen, in the Auditor's Office, for all of their participant communication efforts and assisting with the transition, particularly given a new payroll system project is also underway.

It was noted that Ms. Schneider recently joined National Association of Government Defined Contribution Administrators (NAGDCA). She met with Senator Todd Young's Office regarding Senate Bill 1770, which eliminates the first day of the month provision for 457(b) Plans. Senator Young has the bill under advisement.

Lastly, Ms. Schneider thanked all of the key members at Empower who have provided service to the Plans.

V. Investment Consultant's Report

Annual Market Review

Mr. Williams, of Capital Cities, provided a market environment presentation to assist the Committee in reviewing the 2021 investment landscape and market outlook for 2022. Mr. Williams touched on the broader market return drivers and strong equity performance. All styles of equity, except for emerging markets, generated positive returns in 2021. Both U.S. and non-U.S. fixed income displayed negative returns in 2021. Mr. Williams discussed the yield curve, and although yields were at an all-time low in 2020, interest rates generally rose across maturities as the U.S. Treasury Yield shifted upward during the year.

Mr. Williams highlighted themes that impacted the markets, starting with how the Covid-19 pandemic strongly detracted from the global economy in 2020 and governments responded with unprecedented monetary and fiscal stimulus. While Covid-19 remains in the news, the pandemic's market impact is waning. Mr. Williams also discussed indicators that suggest the economy has recovered, including PCE returning to pre-pandemic levels and an improving unemployment rate. Mr. Williams also noted that inflation has surpassed a 7% change from a year ago, while the Federal Reserve's year-over-year inflation target is 2%. The Federal Reserve will end current asset purchases in March 2022 and has forecasted rate hikes in the Federal Funds rate in 2022. Looking ahead to 2022, Mr. Williams indicated that equity valuations across US and Developed Non-US markets are above their long-term averages, but they have come down from 2021 historic highs. The Federal Reserve's decisions, along with potentially rising interest rates, will continue to impact the 2022 investment markets. Mr. Williams also addressed U.S. mid-term elections and geopolitical scenarios impacting the markets, including Russia's recent invasion of Ukraine.

Ms. Spudich highlighted the importance of having a diversified investment menu, following an Investment Policy Statement and conducting ongoing fiduciary oversight, particularly during times of market volatility. Ms. Spudich also discussed the 2022 Fiduciary Oversight Calendar and projects Capital Cities will deliver each quarter (2Q22: Investment Policy Statement, 3Q22: Fee Analysis and Recordkeeper Due Diligence Meeting, 4Q22: Investment Structure Review and Retirement Income Education).

4Q21 Performance & Evaluation Report

Capital Cities presented the Considerations/Observations' pages of the 4Q21 Performance & Evaluation Report. Ms. Somers detailed that Fidelity Low-Priced Stock's long-term performance (last five-year time period) has improved, outperforming the Russell 2000 Index by nearly one percentage point. As a result,

the Fund's long-term performance spotlight has been upgraded to green.

She also noted that Capital Cities conducted a due diligence call with the Capital Group on January 31, 2022, regarding the American Funds EuroPacific Growth Fund. Long-time portfolio manager, Jesper Lyckeus, retired from the firm on December 31, 2021. Lyckeus managed ~4% of the EuroPacific Growth portfolio. Assets were transitioned to the remaining ten portfolio managers, along with the research portfolio analysts. EuroPacific Growth trailed the MSCI ACWI ex US Index by approximately five percentage points during calendar year 2021, after displaying significant relative outperformance in 2020. Underperformance in the fourth quarter particularly hurt calendar year 2021's return, including the Fund's positions in digital payment companies, Chinese pharmaceuticals and large platform companies. The Fund continues to rank favorably near the top quartile of peers, outperforming its Index, over the last three- and five-year time periods.

Ms. Spudich noted that the Indiana Stable Value Fund's underlying manager construction was rebalanced on January 6th, per the guidelines outlined in the Investment Policy Statement. Effective March 1, 2022, TransAmerica, a wrap provider for the MetLife portion of the Fund, reduced its expense from 16 bps to 15 bps. The other wrap provider, Voya, charges 15 bps as well. The overall Indiana Stable Value Fund's fee, post rebalancing and wrap fee reduction, is ~33.2 bps.

Turning to the Plan Summary page, Ms. Somers highlighted that the total Plans' assets stood at \$1,918,465,100, as of December 31, 2021. 19% of the assets were in the Plans' default option, the State Street Target Retirement Funds.

A summary qualitative and quantitative review ("stoplight grid") of each investment option was also provided to the Committee. The majority of the investment options are in good/excellent standing. Vanguard Capital Opportunity (short-term performance) and T. Rowe Price Blue Chip Growth (personnel and short-term performance) will continue to be monitored.

Annual Report

Capital Cities prepared an Annual Report for the State Board of Finance. The Report provides comprehensive information regarding each investment option that is offered in the Plans. The Plans' fees are also detailed in the Annual Report. **Mr. Frick moved to approve the Annual Report. Mr. Habig seconded. The Annual Report was unanimously approved.**

VI. Legal Update

Mr. Paton, of Barnes & Thornburg, prepared draft Plan amendments for the Committee's review and comment. Mr. Paton noted that the amendments to the Plan documents either address certain operational issues identified as part of the upcoming recordkeeper transition or are required or permitted under the SECURE Act or CARES Act. The effective date of one of the changes (permitting distributions at age 59½ under both the 457 Plan and the Matching Plan) is dependent on when the amendment is finally adopted. The Committee will review the draft amendments over the next quarter, with the goal of finalizing the amendments at the next Committee meeting in May.

VII. Old Business

None.

VIII. New Business

State Auditor Tera Klutz discussed that the Auditor's Office was recently monitoring a proposed bill that shall require tax units, mainly municipalities, to adopt a 457/defined contribution plan for members of the 1977 pension fund, which includes police and fire. However, the bill did not pass.

Mike Studebaker, of Nationwide, thanked the Committee for its upcoming relationship, as serving as the Plans' Third-Party Administrator.

IX. Adjournment

With no further business before the Committee, the meeting was adjourned at 9:59 a.m. **Mr. Habig motioned for adjournment. Mr. Frick seconded the motion.** The next quarterly meeting is scheduled for Thursday, May 19th, at 9:00 a.m.