



**MINUTES
PUBLIC MEETING
August 11, 2022
9:00 a.m.
IGCS – Conference Room D**

I. Call to Order/Roll Call

Mike Frick (Appointee, Treasurer of State) called the meeting to order at 9:00 a.m. Committee members present were Joseph Habig (Appointee, Governor), Nancy Marsh (Appointee, Board of Finance), and Deanna Oware (Appointee, Board of Finance). Staci Schneider (Chief of Staff to the Auditor of State), Kim Diller and Britton Stucker (Auditor of State) and Mark Hopkins (Legislative Affairs); Mike Paton (Barnes & Thornburg, Counsel to the Committee and the Administrator); Kevin Mitchell, Michael Burkhart, Mike Studebaker, Rachel Bush, and Nibedita Mishra (Nationwide, Third-Party Administrator to the Plans); and Tiffany Spudich, Susan Somers, and Luke Rush (Intern) (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

Chairman Mike Frick asked for a motion to approve the minutes from the May 19, 2022 meeting. **Ms. Oware moved to approve the minutes. Ms. Marsh seconded. The minutes were unanimously approved.**

IV. Administrator's Report

Mr. Mitchell, of Nationwide, reported that Nationwide is conducting in person and virtual meetings with participants. Nationwide has completed 250 site visits and 1100 participant meetings, along with 300 new participant enrollments have been processed. Mr. Mitchell also welcomed the Town of Sheridan to the Plans.

Ms. Mishra and Ms. Bush, of Nationwide, presented a review of Nationwide's cybersecurity practices. Ms. Mishra highlighted cybercriminal activity, along with patterns and examples of cybersecurity fraud. Ms. Mishra also discussed Nationwide's adherence to DOL Cybersecurity Guidance. Ms. Bush indicated that Nationwide has a well-documented cybersecurity program and discussed the threat landscape and examples of breaches. Nationwide has 240 associates in Risk Management, with 80 associates dedicated to

cybersecurity and 40 associates dedicated to threat detection.

V. Investment Consultant's Report

2Q22 Performance & Evaluation Report

Capital Cities presented the Considerations/Observations' pages of the 2Q22 Performance & Evaluation Report. Ms. Spudich detailed T. Rowe Price Blue Chip Growth Fund's long-term performance (last five-year time period) has fallen to the bottom quartile of peers and trailing the benchmark. As a result, the Fund's long-term performance spotlight was downgraded to yellow.

Ms. Spudich also reminded the Committee that once cash flow figures are obtained for the third quarter, Capital Cities will resume reporting that information on the quarterly Performance & Evaluation Reports. Cash flow data was not available for the first and second quarters given the recordkeeper transition.

Ms. Spudich also presented the second quarter market review. Ms. Spudich stated high inflation metrics, accompanied by rising interest rates and geopolitical tensions caused low consumer confidence in the second quarter. In equity markets, all styles posted negative returns. Large Cap and Small Cap were mixed, while Value held up better than Growth. Emerging Markets Equity was the top performing style, though sharply negative. International stocks generally performed better than 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 1.5% -1.75% during the second quarter, with an additional 0.75% in July. Cash was the only positive asset class across equity and fixed income in the second quarter. The Bloomberg Aggregate Index finished sharply negative with Treasuries holding up better than Credit. 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 also provided to the Committee. All the investment options are in good/excellent standing, except T. Rowe Price Blue Chip Growth. Capital Cities continues to monitor the Fund's personnel and performance.

Ms. Spudich highlighted that the total Plans' assets stood at \$1,614,469,493, as of June 30, 2022, with 19% of the assets in the Plans' default option, the State Street Target Retirement Funds. Ms. Spudich detailed the State Street Retirement Funds returned between -7.6% (Retirement Income Fund) and -15% (2065 Fund) for the quarter. She also noted the five-year returns were between 4% (Retirement Income Fund) and 6.7% (2060 Fund).

Annual Fee Analysis

Ms. Somers provided a presentation to assist the Committee in reviewing the Plans' investment management, recordkeeper, administrative and consultant fees. The Fee Analysis documented the close monitoring and benchmarking of the Plans' fees. Ms. Somers noted that the Plans' investment management fees are competitively priced relative to peers. Ms. Somers discussed that PIMCO Total Return's expense is rated Above Average by Morningstar; however, Morningstar does not take into consideration revenue-sharing rebated back to participants in their rating methodology. Ms. Spudich also discussed PIMCO Dynamic Bond, which is an underlying fund in the Indiana Flexible Bond Fund. PIMCO offers alternative share classes that are 5 bps less expensive on a net cost basis (~\$7k annual savings); however, Nationwide cannot rebate revenue within a custom fund structure. As a result, an investment share class exchange is not recommended.

Ms. Somers also explained that the Plans' recordkeeper/administrative fees are transparent and equitable

for participants. Recordkeeper fees were last benchmarked during the Third-Party Administrator Request for Proposal process that occurred in late 2020 and subsequent transition to Nationwide in 2021. This process ensured fees and services are competitive.

Recordkeeper fees paid to Empower (the former recordkeeper) during the 2021 calendar year totaled \$3,371,031. The total annual average fee per participant (investment management expense and recordkeeper fee) was approximately 48 basis points. In addition, Ms. Somers noted that Empower collected \$2,142,712 in calendar year 2021 for its Reality Investment Solution (Managed Account Services). Participants have not been charged a Managed Account Services' fee with Nationwide, as they were given a 90-day free trial of ProAccount.

Finally, the Committee reviewed the \$3/participant administrative fee that covers the Auditor of State Plan-related expenses, including personnel, legal, audit and investment consultant expenses. Ms. Spudich noted that expenses in 2021 exceeded the administrative fee paid to the Unallocated Plan account. The Unallocated Plan Account balance as of June 30, 2022, was \$194,149. Finally, Ms. Somers discussed the investment consultant expenses, which was benchmarked and negotiated as part of the 2020 Investment Consultant Request for Proposal process.

VI. Legal Update

None.

VII. Old Business

None.

VIII. New Business

None.

IX. Adjournment

With no further business before the Committee, the meeting was adjourned at 9:51 a.m. **Ms. Marsh motioned for adjournment. Ms. Oware seconded the motion.** The next quarterly meeting is scheduled for Thursday, November 17th, at 9:00 a.m.