

**MINUTES
BOARD OF TRUSTEES OF THE
INDIANA PUBLIC RETIREMENT SYSTEM**

**Meeting held at:
One North Capitol
1st Floor Board Room
Indianapolis, Indiana 46204**

September 16, 2011

Board Members Present

Ken Cochran, Chairman
Greg Hahn, Vice Chairman
Tim Berry
Jodi Golden
Michael Pinkham
Chris Ruhl
Bret Swanson

Others Present

Pete Keliuotis, Strategic Investment Solutions (SIS)
John Meier, Strategic Investment Solutions (SIS)
Andy Thomas, Indiana Retired Teachers Association (IRTA)
Deb McNear, Krieg DeVault, LLP
Cindy Fraterrigo, PricewaterhouseCoopers
Brandon Robertson, PricewaterhouseCoopers
John Dowell, Nyhart
Mike Zurich, Nyhart
Cliff Asness, Ph.D., AQR Capital Management, LLC
Adam Berger, AQR Capital Management, LLC
Bruce Hopkins, CEM Benchmarking Inc.

Staff Present

Steve Russo, Executive Director
Erin Hankins, Executive Assistant
Andrea Unzicker, Chief Legal and Compliance Officer
Jaclyn Brinks, Staff Attorney
Allison Murphy, Legislative Director
Jeff Hutson, Chief Communication Officer
Teresa Snedigar, Director of Internal Audit
Julia Pogue, Chief Financial Officer
David Cooper, Chief Investment Officer
Scott Davis, Investments – Director of Public Equity

Meeting called to order at 9:07 a.m. by Chairman Cochran.

I. Election of Officers

Andrea Unzicker stated that the Indiana Pension Modernization Act (IC 5-10.5) creates a new INPRS Board and sets a schedule for the election of Board officers to no later than June 30 of each year. This being the first Board meeting since that time, Legal counsel recommended that the Board nominate Board officers. Prior to the implementation of the Indiana Pension Modernization Act, Kendall Cochran served as the Chairman of the Public Employees' Retirement Fund ("PERF") and President of the Indiana State Teachers' Retirement Fund ("TRF"), and Greg Hahn served as the Vice Chairman of the PERF Board and Vice President of the TRF Board. Steve Russo stated that under prior statutes the TRF Board retained a Board Secretary, a position which has been eliminated under IC 5-10.5-3-7.

MOTION duly made and carried to nominate Kendall Cochran as Chairman of the INPRS Board of Trustees.

Proposed by: Michael Pinkham
Seconded by: Bret Swanson
Votes: 7 in favor, 0 opposed, 0 abstentions

MOTION duly made and carried to nominate Greg Hahn as Vice Chairman of the INPRS Board of Trustees.

Proposed by: Bret Swanson
Seconded by: Chris Ruhl
Votes: 7 in favor, 0 opposed, 0 abstentions

II. Approval of Minutes from June 11, 2011 Board of Trustees Meetings

MOTION duly made and carried to approve the minutes from the June 11, 2011 joint, PERF, and TRF Board meetings.

Proposed by: Michael Pinkham
Seconded by: Chris Ruhl
Votes: 7 in favor, 0 opposed, 0 abstentions

III. New Business

In accordance with normal practice, written materials for the following matters were provided to the Board members by mail in advance of the meeting.

Ratify prior resolutions of PERF and TRF

Andrea Unzicker presented Board Resolution No. 2011-09-01, ratifying prior Board resolutions, and stated that SEA 549 statutorily transfers powers and duties from the prior PERF and TRF Boards to the new INPRS Board; however, IC 5-10.5-7-2 is silent with respect to the transfer of actions and decisions of the prior boards. To close the statutory gap, Legal counsel recommended ratification of prior PERF and TRF Board resolutions, the topics of which Ms. Unzicker summarized for the Board.

MOTION duly made and carried to approve Board Resolution No. 2011-09-01, ratifying prior PERF and TRF Board resolutions.

Proposed by: Bret Swanson
Seconded by: Jodi Golden
Votes: 7 in favor, 0 opposed, 0 abstentions

Board Governance Manual Adoption

Andrea Unzicker presented Board Resolution No. 2011-09-02 and stated that the Board Governance Manual (BGM) has been updated to reflect reconstituted Board processes made effective July 1, 2011 by the Indiana Pension Modernization Act. Ms. Unzicker provided an executive summary of the updates, including updating language to "INPRS" and a singular Board, revising the historical overview of funds to align with the INPRS structure, clarifying Board-retained duties, and updating INPRS information and key service providers. Due to the addition of a new INPRS risk manager, the BGM also includes minor clarifications to the Risk Management Policy and an update to the Procurement Policy to clarify that the leasing out of space is not under the Procurement Policy.

MOTION duly made and carried to approve Board Resolution No. 2011-09-02, adopting the new Board Governance Manual.

Proposed by: Bret Swanson
Seconded by: Michael Pinkham
Votes: 7 in favor, 0 opposed, 0 abstentions

Indiana Administrative Code Adoption

Allison Murphy presented Board Resolution No. 2011-09-03 and reviewed an executive summary of proposed revisions to the Indiana Administrative Code (IAC), which were driven by the alignment of PERF and TRF IAC provisions and administrative issues. The Board requested and received additional information regarding the withdrawal of charter schools from PERF, including movement to a different retirement fund and the time period in which the withdrawal must be

complete, and consecutive service credit requirements for members of the Prosecuting Attorneys' Retirement Fund (PARF).

MOTION duly made and carried to approve Board Resolution No. 2011-09-03, adopting changes to the Indiana Administrative Code.

Proposed by: Greg Hahn
Seconded by: Tim Berry
Votes: 7 in favor, 0 opposed, 0 abstentions

DC/ASA Plan Rules Adoption

Andrea Unzicker presented Board Resolution No. 2011-09-04 and stated that SEA 524 created the Public Employees' Defined Contribution Plan, which allows new State of Indiana employees to opt out of the current Defined Benefit/ASA Plan in favor of an Annuity Savings Account-only Plan. Ms. Unzicker then reviewed an executive summary of the plan as provided in the Indiana Code. Resolution No. 2011-09-04 provides for the adoption of Indiana Administrative Code provisions largely mirroring the ASA Plan to provide for administrative efficiency and fluidity. Should the Board adopt Resolution No. 2011-09-04, the new IAC rules will be forwarded to the Internal Revenue Service for inclusion in INPRS Cycle-C filing. The Board requested and received additional information regarding the setting of the employer contribution rate under the new plan and resultant effect on the fund's unfunded liability, a timeline and process for IRS approval of INPRS Cycle-C filing, and potential future changes to the Indiana Code to implement the new plan.

MOTION duly made and carried to approve Board Resolution No. 2011-09-04, adopting Indiana Administrative Code rules related to the Public Employees' Defined Contribution Plan.

Proposed by: Chris Ruhl
Seconded by: Bret Swanson
Votes: 7 in favor, 0 opposed, 0 abstentions

Fiduciary Education

Deb McNear of Krieg DeVault, LLP presented the fiduciary and governance education segment of the Board meeting to fulfill the Board's fiduciary education requirement set forth in IC 5-10.5-3-2(c)(1). Ms. McNear spoke to the nature of the Board's fiduciary duties, the prudent investor standard and the exclusive benefit rule, and steps the Board should take to ensure that it will not breach its fiduciary duties. The Board requested and received additional information regarding the Board's fiduciary duties when delegating functions to INPRS staff, the parsing of fiduciary duties, individual versus board fiduciary duties, and the

impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act upon the Board's fiduciary duties.

Financial Update

Julia Pogue presented the financial update and reviewed INPRS financial highlights for June 2011, actual and forecasted expenses compared to budget, and a statement of fiduciary net assets. Forecast budget savings were driven primarily by lower personnel and benefit costs, lower IT services due to strategic changes, and efficiency resulting from integration and price negotiation, including investment management fees. The first forecast budget for FY 2012 will likely be presented to the Board in the December meeting. The Board requested and received additional information regarding the effect of the shrinking government sector (as reflected in macro-employment reports) upon INPRS forecasting of employer contributions.

Proposed GASB Accounting Standards

Julia Pogue presented proposed Government Accounting Standards Board (GASB) changes to pension accounting and financial reporting to fulfill the Board's fiduciary education and governance requirement set forth in IC 5-10.5-3-2(c)(3). The changes will likely be published in June 2012 and will affect covered employers. Proposed changes include a key conceptual shift in reporting pension liabilities and expenses for defined benefit plans from a "funding" approach to an "earnings" approach, employers reporting net pension liability in financial statements, and significant changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes. The Board requested and received additional information regarding requirements to notify employers of reporting requirements, pension association responses to GASB, the achievement of transparency by reporting requirements, concerns over the subjective interpretation of GASB standards and its effect on the longevity of employer assets as related to INPRS employer contribution rates.

Actuarial Education and PERF Experience Study

John Dowell and Mike Zurich of Nyhart, TRF's actuary, presented the actuarial education segment to fulfill the Board's actuarial principles and methods education requirement set forth in IC 5-10.5-3-2(c)(6). Mr. Dowell reviewed the actuarial process and actuarial assumptions, including key drivers and prevalence.

Brandon Robertson and Cindy Fraterrigo of PricewaterhouseCoopers then presented the PERF actuarial experience study, which is required by Indiana

Code to be conducted every five years to determine if any changes need to be made to actuarial assumptions (i.e., demographic and economic assumptions), as well as experience studies of the 1977 Fund, C&E Fund, Judges' Retirement System, Prosecuting Attorneys' Retirement Fund, and Legislators' Defined Benefit Plan. Based upon each plan's experience and current market conditions, PricewaterhouseCoopers recommended changes to assumptions set forth in the Board handout entitled "The State of Indiana Public Retirement System: Experience Study – Summary (September 16, 2011)". The Board requested and received additional information regarding the change in the present value of future benefits attributable to the PERF withdrawal rate assumption, member options to roll over money into PERF, and the effect of an assumption change upon the fund if the assumption reverses within the five-year statutory timeframe. INPRS staff recommended Board adoption of the following proposed assumption rates to be used in the actuarial study to be presented to the Board in the December meeting:

- PERF
 - Retirement: Lower the retirement rates at various age and service combinations to reflect recent experience
 - Withdrawal: Significantly increase the withdrawal rates, vary based on salary level
 - ASA Withdrawals: Assume 50% of all vested members will annuitize their ASA balance upon commencement of their employer-funded annuity benefit
 - Dependent Assumptions: Assume 75% of all male members and 60% of all female members are married; Assume female members are two years younger than their spouses and continue to use assumed age differences that male members of the fund are three years older than their spouses
 - Salary Growth: Revise the salary growth assumption to reflect assumed inflation of 3.00% and an age-based table of additional productivity/merit/promotional increases
- 1977 Fund
 - Retirement: Change retirement rates from age-based to service based
 - Withdrawal: Change retirement rates from age-based to service-based
 - Disability: Modify the disability rates based on recent experience
 - Dependent Assumptions: Change percent married assumptions to assume 80% of all male members and 50% of all female members married; Change age difference assumption to assume that female members are same age as their spouses and continue to use assumed age differences that male members of the fund are three years older than their spouses
 - Salary Growth: Lower the salary growth assumption to 3.25%, which reflects assumed inflation of 3.00%, plus 0.25% for real wage growth

- JRS
 - Retirement: Modify the current assumption to increase the retirement rates on and after age 65
 - Withdrawal: Increase the withdrawal from 4.00% to 7.00% per year from age 38 to 65
 - Dependent Assumptions: Change the age difference assumption to assume that female members are two years younger than their spouses and that male members are four years older than their spouses
- C&E Fund
 - Modify the current assumption slightly to increase the retirement rates at ages 55, 56, and 59 to 15%
 - Salary Growth: Lower the salary growth assumption from 4.50% to 3.25%, which reflects assumed inflation of 3.00%, plus 0.25% for real wage growth
- PARF
 - Retirement: Modify the current assumption that all members retire at age 65 to assume 20% retirement at ages 62-64, then 100% at age 65

MOTION duly made and carried to adopt the actuarial assumption rates as stated above.

Proposed by: Greg Hahn
Seconded by: Bret Swanson
Votes: 7 in favor, 0 opposed, 0 abstentions

Retirement Plan Design and Administration

Julia Pogue stated that Senator Walker requested a fiscal report on offering active PERF and TRF members the option to transfer from the defined benefit plan to a defined contribution plan. The report fulfills the Board's fiduciary education requirement set forth in IC 5-10.5-3-2(c)(4) and will be presented to the Pension Management Oversight Committee on September 28, 2011. Cindy Fraterrigo of PricewaterhouseCoopers presented an executive summary of the report, which included advantages and disadvantages to employers, alternative retirement plan designs, challenges, and additional considerations. John Dowell of Nyhart reviewed considerations specific to TRF. The Board requested and received additional information regarding cost effectiveness of the proposed plan and loans offered in the LEDB.

Benefit Administration Benchmarking

Bruce Hopkins of CEM Benchmarking, Inc. discussed the administrative benchmarking services provided to INPRS, including PERF and TRF

administration costs per active member and annuitant as compared to the peer average. The presentation fulfills the Board's fiduciary education requirement set forth in IC 5-10.5-3-2(c)(4). The Board requested and received additional information regarding the correlation between cost and service, the services included in administrative costs, and opportunities for economies of scale and the lowering of costs on a per-member basis. The Board requested that future reports include a historical cost trend relative to the benchmark data.

Asset Allocation Discussion

Cliff Asness, Ph.D., of AQR Capital Management presented "Thoughts on Long-Term Investing" to fulfill the Board's investments education requirement set forth in IC 5-10.5-3-2(c)(5). Mr. Asness discussed the current investments environment, INPRS's traditional portfolio, risk concentration and parity, diversification, and leverage. The Board requested and received additional information on mutual fund versus hedge fund risk parity and moving INPRS total portfolio toward risk parity.

Pete Keliuotis and John Meier, CFA, of Strategic Investment Solutions (SIS) then presented on asset allocation to fulfill the Board's investments education requirement set forth in IC 5-10.5-3-2(c)(5). Mr. Meier provided a background on PERF and TRF asset allocation, investment responsibilities, asset mix optimization, a process for developing expected returns, constraints, alternatives, liabilities and INPRS liability projections, funded status range, a risk-reward analysis, liquidity scenario analysis, and next steps. The Board requested and received additional information on the completeness of the modeling and data presented, the extent to which SIS worked with INPRS Investment staff in reaching an asset allocation decision, and the status INPRS' risk parity and risk management compared to other public pension funds.

Investments Update

David Cooper presented the investments update and discussed a benchmark comparison of PERF and TRF investment performance.

Executive Director's Report

Steve Russo presented the Executive Director's report and reviewed PERF and TRF metrics, stating that there was a downturn in call center satisfaction but corrective measures have been put in place to address the issue, and proposed consolidated INPRS metrics. The Board recognized Brent Long, an officer with the Terre Haute Police Department, who died in the line of duty on July 11, 2011.

IV. Adjournment

MOTION duly made and carried to adjourn the September 16, 2011 Board meeting at 4:40 p.m.

Proposed by: Bret Swanson
Seconded by: Jodi Golden
Votes: 7 in favor, 0 opposed, 0 abstentions