

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

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

December 14, 2012

Board Members Present

Ken Cochran, Chairman
Brian Abbott
Tim Berry
Jodi Golden
Adam Horst
Michael Pinkham
Kyle Rosebrough
Bret Swanson

Others Present

Tiffany Spudich, Capital Cities
Joe Bill Wiley, Capital Cities
Paul Joyce, State Board of Accounts
Todd Caldwell, State Board of Accounts
Pete Keliuotis, Strategic Investment Solutions (SIS)
Ray Jones, IRTA
Nancy Tolson, IRTA
Adam VanOzdol, Indiana Legislative Insight

Staff Present

Steve Russo, Executive Director
Andrea Unzicker, Chief Legal & Compliance Officer
Jeff Hutson, Chief Communication Officer
Teresa Snedigar, Director of Internal Audit
Mike Hinline, Chief Information and Technology Officer
David Cooper, Chief Investment Officer
Donna Brown, Finance, Controller
Scott Davis, Investments, Director of Public Equity
Erin Hankins, Executive Assistant
Katie Williams, Legal Analyst

Meeting called to order at 10:06 a.m. by Chairman Cochran.

I. Approval of Minutes from November 2, 2012 Board of Trustees Meeting

MOTION duly made and carried to approve the minutes from the November 2, 2012 board meeting.

Proposed by: Adam Horst
Seconded by: Mike Pinkham
Votes: 8 in favor, 0 opposed, 0 abstentions

II. Committee Reports

A. Investment and Actuarial Committee

Bret Swanson presented the INPRS Investment and Actuarial Committee report to the board. On November 29, 2012, the committee met and hosted a guest speaker from PIMCO who gave an update on the economy and its affect on investment strategies. Mr. Swanson highlighted several of the main topics covered in the meeting: IPS recommended changes; PERF/TRF procedure consolidation; private equity strategy update; new commitments; and the watch list. A copy of a memo from the committee with a detailed list of topics discussed was provided to each board member.

B. Audit and Risk Committee

Ken Cochran presented the INPRS Audit Committee report to the board. He stated that on December 6, 2012, the committee met and reviewed the State Board of Accounts annual financial statements and results. A detailed report from SBOA would be presented later in the board meeting.

C. Benefits Administration Committee

Mike Pinkham presented the INPRS Benefits Administration Committee report to the board. He stated that the committee met on December 7, 2012, and spent most of their time reviewing the proposed Indiana Administrative Code changes. A copy of a memo from the committee with a detailed list of topics discussed was provided to each board member.

III. Required 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.

A. Election of Board Officers

Under Indiana Code 5-10.5-3-7, the board shall elect a Chair and Vice Chair from its members to serve as officers. Officers shall serve for one year or until the officer's successor is elected and qualified. Chairman Cochran opened the floor for nominations.

MOTION duly made and carried to reelect Ken Cochran as Chair of the INPRS Board of Trustees.

Proposed by: Mike Pinkham
Seconded by: Adam Horst
Votes: 7 in favor, 0 opposed, 0 abstentions

MOTION duly made and carried to elect Adam Horst as Vice Chair of the INPRS Board of Trustees.

Proposed by: Tim Berry
Seconded by: Jodi Golden
Votes: 7 in favor, 0 opposed, 0 abstentions

B. State Board of Accounts Audit Review

Paul Joyce, Deputy State Examiner, and Todd Caldwell, Lead Auditor, from the State Board of Accounts presented their 2012 Independent Auditor's Report to the board. Mr. Joyce stated that this was the first combined audit for PERF and TRF. He expressed appreciation for the INPRS executive and audit staff and their willingness to assist in the audit as needed. Mr. Joyce reviewed the process, standards, and findings of the audit. SBOA gave INPRS an unqualified opinion (i.e. there were no material findings). He thanked the board for forming an audit committee. Mr. Horst gave positive feedback to Mr. Joyce and Mr. Caldwell and to INPRS staff for their work on the audit.

C. Indiana Administrative Code Adoption

Steve Russo provided background information and an explanation of the Indiana Code and Administrative Code. He reminded the board that they have the statutory responsibility to maintain and to make changes to the IAC. The main themes of changes proposed at this meeting were alignment between PERF and TRF rules and those made because of administrative review issues. A written executive summary of the changes was given to the board for review.

Allison Karns presented proposed updates to the Indiana Administrative Code. A total of 19 changes were proposed in the areas of benefits, the ASA-Only plan, and definitions/technical corrections. Ms. Karns gave a brief summary of each change.

Recommended IAC changes regarding benefits were: (1) Employer Contribution Accounts (35 IAC 1.2-1-6); (2) Leave of Absence (35 IAC 1.2-3-5; 35 IAC 14-5-5; 35 IAC 14-5-6); (3) Retirement Options (35 IAC 1.2-5-1); (4) Disability Rules (35

IAC 1.2-5-2; 35 IAC 1.2-5-4; 35 IAC 1.2-5-4.1; 35 IAC 1.2-5-7; 35 IAC 1.3-6-3; 35 IAC 1.3-6-3.1; 35 IAC 1.3-6-4; 35 IAC 1.3-6-4.1; 35 IAC 14-9-3.1; 35 IAC 14-9-6); (5) Valuation of ASA (35 IAC 1.2-5-21); (6) Judges' Retirement System Physicians (35 IAC 1.2-5-24); (7) Judges' Retirement System Purchase of Cancelled Service (35 IAC 1.2-5-25); (8) PARF Benefits Payable to Surviving Spouse (35 IAC 1.2-6-14); (9) Supplemental Benefit Computation (35 IAC 2-3-3); (10) 1977 Fund Proof of Birth (35 IAC 2-3-4); (11) 1977 Fund Disability Benefit Procedures (35 IAC 2-5-5); and (12) Public Safety Officers (35 IAC 2-5-10).

Recommended IAC changes regarding the ASA-Only Plan were: (13) ASA-Only Plan Election (35 IAC 1.3-4-1); (14) ASA-Only Plan Member Accounts (35 IAC 1.3-5-1); (15) ASA-Only Plan Member Distribution Options (35 IAC 1.3-6-1); (16) ASA-Only Plan Money Market Rate (35 IAC 1.3-7-4); and (17) ASA-Only Plan Separation from Service (35 IAC 1.3-7-4).

Recommended IAC changes regarding definitions/technical corrections were: (18) Definitions (35 IAC 1.2-2-1) and (19) 1977 Fund Advisory Committee Technical Correction (35 IAC 2-5-7).

A board member asked if INPRS was currently charging an administrative fee for ASAs. Ms. Karns replied that an administrative fee is not charged. Mr. Russo stated that the practice is being considered for the future.

Another board member asked about the rationale for choosing the Money Market fund for the ASA-Only plan. Staff explained that it is most conservative and least volatile. A brief discussion was had on the default options for the ASA-Only plan.

MOTION duly made and carried to adopt the staff recommended changes to the Indiana Administrative Code as captured in Resolution No. 2012-12-01.

Proposed by: Mike Pinkham
Seconded by: Jodi Golden
Votes: 8 in favor, 0 opposed, 0 abstentions

D. Board Governance Manual Updates

Andrea Unzicker introduced the topic and reminded the board that the Investment Policy Statement is part of the Board Governance Manual. She introduced David Cooper to present the recommended changes.

Mr. Cooper began with an explanation of Placement Agent. He then discussed INPRS' need for a Placement Agent Disclosure Policy and the benefits of such a policy. The policy adds transparency and confidence in the investment decision making process, helps prevent impropriety, defines relevant terms, and provides INPRS discretion of remedies if the investment managers' disclosures are inaccurate or incomplete. Mr. Cooper presented the goals of the policy and reviewed the next steps for implementing the policy. Upon approval of the board,

the Placement Agent Disclosure Policy will be incorporated as an addendum to the IPS and will be referenced in future Investment Management Agreements and side letters. Investment staff will create a quarterly report that will track and summarize disclosures.

Next, Mr. Cooper presented the proposed changes to the Investment Policy Statement. A written summary of changes and a copy of the IPS were given to the board for review. Changes to the IPS were discussed at the last Investment Committee meeting. Many of the changes were technical or grammatical. Mr. Cooper highlighted some of the more substantial changes, which included the following: clarification of the methodology for setting target rates of return; Indiana Sudan and Terror States legislation reference; added requirement for fixed income securities; increase of allowable commitments for private equity (to make it consistent with real estate private investment limits); increase of real estate investment limit in commercial mortgages; adjustment of absolute return strategy target allocation ranges; updated Securities Lending Policy to provide the board the option to maintain or not maintain the program; adjusted IPS to mirror the APRA procedures and restrictions; and the inclusion of the Placement Agent Policy in the IPS.

MOTION duly made and carried to adopt the Placement Agent Policy and the IPS recommended changes.

Proposed by: Jodi Golden
Seconded by: Bret Swanson
Votes: 8 in favor, 0 opposed, 0 abstentions

E. Annual Annuity Savings Account Review

Mr. Russo introduced consultants from Capital Cities, Joe Bill Wiley and Tiffany Spudich. CapCities was retained by the INPRS board in 2009 to do an annual review of the Annuity Savings Account (ASA) plans for the board. Mr. Wiley began by providing a history of the relationship between CapCities and INPRS. Ms. Spudich then reviewed the current position of ASA plans and the current tiered investment structure used by INPRS. She offered CapCities' observations of the current investment structure and stated that the structure continues to meet the ASA Plans' objectives. She stated that the current portfolio construction and manager structures meet the Plans' objectives of being uncomplicated, low in fees, and providing minimal tracking error relative to each investment option's benchmark.

Ms. Spudich gave an overview of the Target Date Funds glidepath roll down and its construction. She then commented on the performance of the various funds. Ms. Spudich reviewed the fees for each fund and compared them to the peer group. She stated that the ASA Plans' fees are low due to leveraging the asset base and investment manager roster of the INPRS Defined Benefit Plan and due to the high use of passive management. The ASA Plans' structure has saved the

plans over \$10 million in estimated investment management fees when compared to off-the-shelf products.

A board member asked about the time period for the \$10 million in savings. Ms. Spudich replied that it is calculated annually.

A board member expressed concern about the lack of diversification among participants' investment elections and the fact that most members are enrolled in the Guaranteed Fund. A discussion was had on the options for making adjustments to enrollment choices of participants. Mr. Russo stated that Indiana statute prevents the board from making decisions regarding reenrollment of participants into different investment options. A board member asked if there are any new trends since the change in the default option. Staff responded that most participants still take the default option. A discussion was had on possible ways to engage with participants and educate them.

IV. Unfinished Business

No unfinished business was discussed.

V. New Business

A. Financial Update

Donna Brown presented the INPRS financial update to the board. This update included financial highlights as of October 2012, as November was not yet closed. She stated that FY13 is starting stronger than FY12 did. She also summarized the Fiscal Year 2013 forecasted net position compared to the budget for four specific areas: administration, projects, investments, and capital. She described the main factors affecting change in each area and the variance analysis. Ms. Brown presented a variance analysis of the YTD Actual compared with YTD Forecast.

B. Investments Update

David Cooper began with praising his team for their efforts in consolidating the INPRS Investment Policy Statement as well as the PERF and TRF investment procedures. He described the process and stated that as of November 30, 2012 all INPRS investment procedures have been reviewed and approved by management.

Mr. Cooper reviewed the INPRS portfolio and the asset totals for all funds. In discussing the peak to trough performance, he stated that the current position continues to climb past the last peak in 2007. Mr. Cooper then reviewed the INPRS asset allocation, actual and target, as of October 31, 2012, and the FY13 performance to date by comparing asset class contribution to total return. Mr.

Cooper presented the economic update and noted that it is the same list from November 2012; concerns are the same.

Mr. Cooper discussed the CY 2012 performance of asset types in different economic environments, which demonstrates the need for diversification and risk management. He then reviewed the distribution of INPRS' monthly returns from January 2009 to October 2012.

Mr. Cooper reviewed the DB Performance chart and noted that all assets contributed to the success overall. He compared the rates of return for private equity and private real estate and then gave an update on risk parity performance (which did include numbers from November 2012). He reviewed the pension relief and special death funds and their performance.

Mr. Cooper referenced the list of recent investments and terminations and briefing explained the management process. He noted the addition of a third Risk Parity manager, First Quadrant – Essential Beta, to balance the management of those assets. Mr. Cooper concluded with an update on the Watch List.

C. Executive Director Report

Steve Russo began his Executive Director Report with an update on the INPRS relationship with Xerox/ACS. He gave an overview of the services that Xerox provides (benefit payment processing, Teir-1 service center, and BenefitsWeb) and statistics for each area. Mr. Russo highlighted completed projects with Xerox. The first was mailing notifications to members about online statements and the option to select paper statements.

A board member asked about statement access and how many members have online accounts. A discussion was had on the process for accessing online accounts and viewing account statements.

The second completed project was closing out inactive ASA accounts (those less than \$1,000). Mr. Russo explained the different types of inactive accounts and the process of contacting members and distributing funds. The third completed project was the implementation of ERM. The fourth completed project was the improvement of the notification process for Required Minimum Distribution (RMD). Mr. Russo briefly reviewed four major current projects. He mentioned that future projects have been identified for collaboration with Xerox.

Mr. Russo updated the board on the ERM 1.0 project and provided statistics for employer participation, contributions received, employer inquiries, and planned system fixes.

Mr. Russo then presented an update on ERM 2.0 (the new ASA-Only plan). He stated that code development is in progress and 18 eligible PERF employers

have been identified. Efforts are being made to incorporate the requirement to allow employees a 60-day decision window. The plan is expected to go live on or about March 1, 2013.

Mr. Russo reviewed the discussion on the LEDC contribution rate that occurred at the November 2012 board meeting. He stated that the board has the flexibility to set the LEDC rate up to the PERF state contribution rate; prior practice has been to provide the full PERF state contribution rate. He also stated that the board does not have the flexibility to set the ASA-Only rate higher than the normal cost of the PERF state contribution rate. Mr. Russo explained how the rates are determined for the two groups. A board member summarized that there would be 5% difference in the rates. Ms. Unzicker confirmed that board voted to set the 2013 rate and the 2014 rate, but with the option to change the 2014 if they so choose. Mr. Russo said that he intends to mention the topic to legislators when he meets with them.

Mr. Russo stated that the metrics were on track and details were provided for board review.

VI. Other Business as Requested by the Board

Adam Horst was recognized and thanked for his dedication and service on the INPRS board.

VII. Preliminary Agenda for Next Board Meeting

The date of the next board meeting is set for February 22, 2013. A draft order of business was provided to the board.

VIII. Adjournment

MOTION duly made and carried to adjourn the December 14, 2012 board meeting at 11:45 a.m.

Proposed by: Bret Swanson
Seconded by: Mike Pinkham
Votes: 8 in favor, 0 opposed, 0 abstentions