MINUTES
PUBLIC MEETING
May 18, 2012
9:00 am
Conference Room 18

I. Call to Order/Roll Call

Auditor Tim Berry called the meeting to order at 9:00 am. Other committee members present were, Jon Vanator, Deputy Budget Director, Mike Frick, Chief Deputy Treasurer, Stefanie Rhinesmith and Martha Lake. Also present were Kirke Willing; Deputy Auditor, Jaimie Beisel & Kim Rumple with Great-West Retirement Services (Third Party Administrator to the Plan), Mike Paton of Barnes & Thornburg (Counsel to the Committee and the Administrator), Janet Sweet and Tiffany Spudich with Capital Cities (Investments Consultants to the Committee) and Erin Sheridan with the Auditor of State's Office.

II. Reading of the Minutes

Tim Berry asked for a motion to approve the minutes from the February 17, 2012 meeting. Mike Frick moved to approve the minutes. Jon Vanator seconded. The minutes were approved unanimously.

III. Administrators Report

Auditor Berry announced Jean Chatzky will be the speaker at the 2012 fall retirement dinners. The dinner in Indianapolis is scheduled for October 11, 2012

Jaimie Beisel from Great West Retirement Services introduced Kim Rumple as a new employee.

IV. Management Consultants Report

<u>Performance & Evaluation Report</u>

<u>Market Overview</u>
Janet Sweet explained performance for the first quarter has improved and US equities achieved double-digit returns for the second consecutive quarterly period. Large, Mid, and Small Caps all rose more than 12%. Over the last one year period, only US Large and Mid cap Equities posted positive results, while most Small caps and foreign equities are in the red. Turning to fixed income, the Barclays aggregate index returned a 0.3% gain. The continuation of the "risk-on" trade drove returns in spread sectors higher with High Yield and Emerging Markets bond indices leading the way. Also, over the last one year period,

Municipals (+12.1%) have posted the strongest returns.

Manager Alert

Vanguard Capital Opportunity trails the Index by over four percentage points and ranks in the bottom half of peers over the last one-year time period. Cap cities conducted a review which resulted in a recommendation to retain the fund. The fund has a strong history of selecting growth stocks that have outperformed the market. However, over the last couple of years the Fund has struggled with performance relative to its benchmark and peers primarily due to poor stock selection. Capital Cities also continues to monitor the Fund's overall capitalization exposure as the philosophy/process of the Fund will allow it to hold larger cap companies. Currently, within the Indiana Deferred Compensation Portfolio, the Vanguard Capital Opportunity fund represents $50.8 million of total Portfolio assets, or 5.9%.

Investment Structure Review:

Defined Contribution Scrutiny/Regulations

Tiffany Spudich presented what outlines current trends and regulations within the DC marketplace in order to assist the Committee in reviewing the Plans' investment option structure and feature. Capital Cities also regularly monitors the Plans's expenses and service providers. Consideration could be given to conducting a recordkeeping study. Currently Capital Cities monitors and works with Great West to ensure lower fees and progress being made on new fee disclosure requirements.

Defined Contribution Trends

Almost all defined contribution plans offer mutual funds in their lineup (95%). At the same time, the majority also have at least on institutionally structured fund (a separate account, collective trust or unitized, private label fund) in the lineup as well. ETF's are nearly nonexistent. Capital Cities believes the utilization of the institutionally structured funds will continue to increase given the increased fee scrutiny. Retirement Income Solutions continue to also be a hot topic within the industry. However, few plan sponsors offer any income for life solution (82.9%) due to concerns regarding fiduciary implications, insurer risk and participant demand.

Investment Structure

Currently the Plan utilizes a tiered investment structure similar to about 52% of other deferred contribution plans. Tier I consists of the Target Date Funds. Tier II contains the traditional Core options that provide the proper diversification. Tier III offers five specialty options with one Legacy Fund.

Today Economic headwinds such as slow growth, housing, jobs and the European debt crisis lead to concerns about the prospects for stock returns, domestic and abroad. Traditional public stock markets offer lower expected returns and higher potential volatility than in years past. The current fixed income environment is challenging to traditional fixed income portfolios that are constrained to the Barclays Capital Aggregate Bond Index, particularly given the high government exposure of the index at 76%. Given the challenge of the current market environment, Capital Cities advocates looking beyond traditional styles in order to find value in the form of better performance and/or downside protection. One component to look at adding to the portfolio is that of an unconstrained equity manager. Successful unconstrained managers have been able to add alpha, given the larger opportunity set and limited constraints. Unconstrained strategies could be included:

1. As a stand alone Tier III specialty Option
2. As a multi-manager option either in Tier II or Tier III
3. Inside Custom target Date portfolios only.

Capital Cities recommendation is to consider further exploration on including unconstrained equity and/or fixed income funds in the investment structure lineup.

There was much discussion by the committee concerning unconstrained strategies and how they would be included in the plan, i.e. as a stand alone option or in the target date funds only. The committee also discussed the options of looking at white labels for the investment options that would allow for more than one fund manager within that option. Auditor Berry then asked Capital Cities how this all relates to the international equity manager search they conducted for the replacement of the Artio International Equity II fund. Tiffany explained to the committee that there are 2 options that they are recommending for the committee to consider:

1. Map Artio International Equity II stand-alone assets to the Fidelity Diversified International Fund and utilize Manning & Napier within the Target Date Options in order to simplify the investment structure.
2. Map Atrio's assets from a stand-alone and target date basis to American Funds, Waddell & Reed or Wellington

Janet explained that the Manning & Napier fund represented an unconstrained fund manager, while the fund managers in option two are more like the core fund manager being replaced. Given the investment structure suggestions being made they wanted to provide a couple of options for the committee to choose from. After more discussion by the committee on the new suggestion for the investment structure including unconstrained managers and the possibility of including this as part of the new international fund manager replacing Artio as well as the possibility of using a white label for this fund. Janet suggested that it might make sense, given all of the different structures we have talked about this morning, to delay a decision today and let Capital Cities come back with some ideas on what the structures would look like with all of the different components discussed. The Committee agreed with this idea and asked Capital Cities to bring more options to the committee at a later meeting. The meeting will be in addition to the normal Quarterly meeting and should be held soon, hopefully around the middle to end of June. Auditor Berry asked Kirke to get in touch with all involved and get a meeting date set up in the near future.

IV. Old Business

V. New Business

No new business was reported.

VI. Adjournment

There being no further business before the Committee the meeting was adjourned at 10:08 a.m. Next scheduled meeting will be announced in an email.