MINUTES
PUBLIC MEETING
May 21, 2010
9:00 am
Indiana Government Center South
Conference Room 17

I. Call to Order/Roll Call

Auditor Tim Berry called the meeting to order at 9:03am. Other Committee members present were Chris Ruhl (Governor's appointee), Jim Holden (Treasurer's appointee), Steffanie Rhinesmith, and Martha Lake. Also present were Kirke Willing, Deputy Auditor, Jaimie Beisel with Great-West Retirement Services (Third Party Administrator to the Plan), Mike Paton of Barnes & Thornburg (Counsel to the Committee and the Administrator), Joe Bill Wiley 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 19, 2010 meeting. Chris Ruhl moved to approve the February 19, 2010 meeting minutes. Tim Berry seconded. The minutes were approved unanimously.

III. Management Consultant's Report

Artio Global Investors Presentation

Once a year, the board likes to visit with one of the companies that manage an investment fund within the plans portfolio. Joe Bill Wiley from Capital Cities introduced two representatives from Artio Global Management, Tim Devlin Director, Client Service and Scott Rubin, Relationship Manager, Institutional Investments.

Scott Rubin began his presentation with a brief overview for Artio Global Management. Artio is a registered investment adviser dedicated to managing international assets for a global client base. The firm's parent company, Artio Global Investor, Inc., is listed on the New York Stock

Exchange (symbol: ART). Artio has not had any major changes to its management team since the fund's inception in 1995 demonstrating consistency and stability for their clients as well as the internal team. Their team is internationally diverse and stem from 9 countries through out the world and they have a 24 hour trading desk.

Artio's philosophy is that a diversified core portfolio, driven by dynamic sector and company fundamental analysis, is the key to delivering consistently superior, risk-adjusted, long-term performance in the international equity markets. Their investment mandate consists of international core, large, and mid-capitalization with an opportunistic emerging markets allocation up to 35% of account. The fund began with the Indiana Deferred Compensation Plan in November of 2007 and as of March 31, 2010 has a Market Value of $19,214,000.00. The benchmark for the fund is the MSCI ACWI ex-US which they have outperformed 13 out of the last 15 years.

Tim Devlin continued the presentation discussing the Index Returns and Market Highlights and immediately pointed out that although no one was happy about the 41% loss in 2008 they were able to beat the index by taking a defensive posture. They continued this defensive posture into 2009 with a low weight to emerging markets and the banking industry and more focus on higher quality credit companies. This proved well in the first quarter of 2009, but did hurt them compared to the benchmark later in the year when the market rallied very quickly. Going into the first quarter of 2010 Artio has looked to be overweight in Europe and underweight Japan. The debt crisis in Greece has hurt this position some, but European equity markets posted gains in March and lifted most first quarter returns into positive territory. Going forward Artio's investment focus will resemble a barbell approach with defense on one end and offense on the other. On the positive there are a number of attractive longer-term opportunities in some core European markets, however the significant short-term concerns resulting from the sovereign debt debacle continue to be a negative. Many investors worry that the loan packages to Greece may devalue the Euro due to the fact that they are lending money to a country that cannot payback its debt. As a result of this Artio has hedged the Euro at an underweight and gone overweight with European equities in countries with stronger credit quality. Japan will continue to be underweight due to demographic, debt and political issues that continue to plague their macro picture. Steffanie Rhinesmith brought up the fact that a lot of companies in Japan are exporters especially to China? Tim agreed and explained that while they are underweight in Japan (10% to the benchmarks 15%) they are focused on the companies that are big exporters and less domestic.

Tim said that the investment in Australia and Canada has altered their position in the materials/mining sector staying away from Iron but investing 5% in Gold. Other Current Investments by sector and region are Defensive Growth, Capitol Goods, Airports, Cement, Asian Technology, Indian Infrastructure and in China focusing on the domestic consumer while avoiding banks and real estate. Also, Artio currently prefers Russia over Brazil. Russia is one of the most underleveraged of the major economies while Brazilian valuations are stretched. Russia's wide-ranging structural reforms offer potential to deliver positive returns, especially in the energy, materials and consumer-oriented sectors.

Considerations & Observations

Tiffany Spudich from Capital Cities began her synopsis by stating that the changes in Personnel and Performance with Wells Fargo leaves them closely monitoring their performance. Although Michael Smith, a senior analyst was promoted to a Co-Portfolio Manager just in Feb 2010, they still underperformed by 172 basis points in the first quarter mainly attributed to Wells' overweight position to IT and stock selection within the sector.

Tiffany also mentioned that they continue to monitor performance for Logan Circle Partners. On April 15th their acquisition by Fortress Investment Group became official. The team philosphy and process will remain the same with the acquisition, however Tiffany did point out that at the end of the 1st quarter of 2010, Steve Cianci, Head of Structured Products and Co-Head of Core and Core Plus Fixed Income Strategies, resigned to pursue other opportunities. Al Leone will replace Cianci as the leader of the structured products group and Jude Driscoll, Founder and CIO, will take a more active role in day-to-day management of the Core and Core Plus Strategies, assisting current lead Portfolio Manager Andrew Kronschnabel. Tiffany did point out that this is not as concerning a change to the Stable Value Fund as the Mandate from the Wrap Providers has made the portfolio much more conservative. Steffanie Rhinesmith commented that she is under the opinion that they have had way too much change and maybe we should start thinking about finding a replacement. Tiffany said they will continue to monitor Logan Circle and again that they do not have any real concerns with the change taking place. They will also start watching the Wrap Provider market as well to see if it will be improving in the near future as that will play a large role in any changes that may or may not take place. Lastly, Steffanie did mention that she feels the Stable Value Fund is doing fine, but she is concerned about the Fortress acquisition and what changes that may bring. Capital Cities will continue to watch this and keep the committee informed.

Investment Structure Review

Tiffany Spudich provided the committee with a copy of the annual Investment Structure Review (ISR) which evaluates the investment structure as well as provides the committee with the latest trends/opportunities within the Defined Contribution marketplace. Tiffany began with the Trends in the Defined Contribution Marketplace:

Fiduciary: Many plan sponsors are taking a more paternalistic approach to the investment structure and management of their plans. Some are simplifying the investment structure for participants by offering custom-multi manager investment options as well as communicating investment options by investor type to assist with employee education.

Fees: Most all plan sponsors are examining their plans fees to ensure they are reasonable, well monitored and documented for better communication to participants. Capital Cities currently provides this annually for the plan provided this analysis back in the February meeting reporting that the plans investments are in the cheapest share class available to keep investment fees to participants at a minimum.

Retirement Income Solutions: This is a hot topic lately because more and more traditional sources of guaranteed income, like defined benefit plans are disappearing. As a result there has been an increased interest among participants in having a steady income stream in retirement. However, while retirement income solutions are gaining interest in the DC Marketplace, few plans have implemented them, about 17%. Annuities make up about 11% of those solutions currently being offered.

Real Return Asset Classes: Real Return/Treasury Inflation-Protected Securities (TIPS) funds were the most common fund additions to DC Plans in 2009, reflecting the growing concerns about inflation. This is due to the fact that most participants are worried that higher expenses coupled with lower asset values increases the risk of depleting retirement funds at a faster pace. Currently there are a wide variety of asset classes being used in real return portfolios, including TIPS, Farmland, Timberland, Energy Stocks, etc. Chris Ruhl asked if the plan ever had this type of investment in the past and Tiffany said it had not. The biggest benefit to real return assets is they provide a hedge against losses in rising or high inflation scenarios.

The Investment Structure Evaluation highlighted Capital Cities philosophical Tenants that warn to not over diversify, meaning simpler is better and too many options isn't always best. They also suggest giving broader access to Capitalization and Style Spectrum in Core Options and keep costs low. Tiffany then discussed the Three Tier Investment Structure for the plan with Tier 1 consisting of the 6 target date (lifestyle) funds, Tier 2 consisting of the 7 Core Investment Options and Tier 3 being comprised of the 5 Specialty/Legacy options. In reviewing the 3 Tiers as they are currently constructed Capital Cities felt that each Tier is well covered with no gaps and minimal overlaps. The early adoption of the target date funds (Tier 1) and utilization as the QDIA has positioned the Plan favorably among its peers as almost 70% of plan sponsors now utilize this option as their QDIA. Tiffany did make a possible recommendation to consider for each of the Tiers:

Tier 1: Consider adding a Real Return component to the Target Date Options.
Tier 2: Consider offering participants a custom multi-manager Large Cap Equity option.
Tier 3: Consider adding a Real Return investment option and offering a custom multi-manager Mid Cap Equity option.

Tiffany asked to open the discussion about Real Returns and if the committee would be interested in adding it as a standalone option in Tier 3 or adding it only to the target date funds in Tier 1 or include it in both? Tim Berry asked Jaimie Beisel from Great West how many participants are utilizing the "help approach" or "do it yourself" when choosing their investments. Jaimie responded that out of 71,000 accounts with an estimated 9% usage, 95% are using managed accounts with a small percent using the advice service and another small percent using the do it yourself approach. Tim also asked if the 9% mentioned in the managed accounts could use the Target Date Structure as an option. Jaimie said that 5-6% already does. Tim's main concern in asking for this information is that if you only offered the real return option in the target date funds it would not be available to others using the managed accounts. Steffanie stated that she feels that it is important to add a real return option to both the target date funds as well as a standalone option as inflation will become a concern in the future. She also suggested looking at other options beside just TIPS as they can be hurt when real rates go up. Tim asked Capital Cities what the process would be to do a search. Capital Cities said they will issue a Broad Agency Announcement (BAA) to get responses so they can make a recommendation at the next meeting. Tim added that he felt it was important to conduct this search to offer participants one more alternative especially given the large number of participants (50%) in the Stable Value Fund.

A motion was made by Steffanie for Capital Cites to conduct a BAA for a Real Return Options. Motion was 2nd by Chris Ruhl, motion was approved unanimously. Motion carried.

The committee also discussed the possibility of adding a custom multi-manager Large Cap Equity Option to the Core Portfolio. The main issue discussed was if they simply just add another option to the Core portfolio and move the other large cap funds over to the specialty funds or possibly eliminate the other Large Cap Funds. The committee asked Cap Cities to research this option some more and report back to the committee at the next meeting.

IV. Old Business

No old business to address

V. New Business

<u>Amendment Six to the State of Indiana Deferred Compensation Plan</u>

Kirke Willing explained to the committee that there has been a recent increase in employees who are no longer able to retire due to certain circumstances and cannot access their retirement funds. Most likely due to the economic down turn, Great-West has had at least two dozen calls this year from participants in this type of situation. Amendment Six will allow a participant who is over 70.5 years old to access their deferred compensation funds even if they are still working. This does not count as an emergency withdrawal and is similar to a rule PERF adopted as well to help employees over 70 who cannot retire access their funds. Mike Patton added that this is a legal distribution and just something the plan needs to adopt.

Tim Berry moved that a motion be made; Chris Ruhl made the motion and Steffanie Rhinesmith 2nd the motion. The amendment was approved unanimously. Motioned carried.

VI. Adjournment

There being no further business before the Committee the meeting was adjourned at 10:18 a.m. Next scheduled meeting is August 20, 2010 in the Government Center Conference Room 18