MINUTES
PUBLIC MEETING
September 24, 2010
9:00 am
Indiana Government Center South
Conference Room 18

I. Call to Order/Roll Call

Auditor Tim Berry called the meeting to order at 9:02am. Committee members present were Adam Horst (Governor's appointee), Jim Holden (Treasurer's appointee), Steffanie Rhinesmith, and Martha Lake. Also present were Kirke Willing, Deputy Auditor, Jaimie Beisel and Danny Kight 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, Tiffany Spudich and Amanda Black 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 August 20, 2010 meeting. Adam Horst moved to approve the minutes. Jim Holden seconded. The minutes were approved unanimously.

III. Management Consultant's Report

Current Glidepaths and Portfolios

Tiffany began her report by addressing target date funds trends. The growing trend is to offer target date funds in 5 year increments instead of 10 year increments which were the norm when target date funds were first offered. Capital Cities recommends the 5 year increments across the retirement time horizon. Doing so is relatively inexpensive, will reduce participant confusion, follow current trends and ease operational issues. Capital Cities also noted that Indiana's Deferred Compensation Plan has unique characteristics that were taken into account while preparing the analysis for the new glidepath structure. Approximately 34,000 employees have a balance. The average balance is $17,937; the median is $3,512. Of the 28,551 state employees with a balance in the fund, the majority of account balances (70%) fall under $10,000. Also, the average participant age is 47; the median age is 49.

Approximately 9% of the Hoosier START Plan assets are allocated to the Indiana Target Date Funds. Amanda said that today the committee needs to determine whether they want to continue down the current glidepath or move to something more conservative. Given the timing of this annual review, the extent of the next "glide-down" needs to be determined because since 2007 there have been no changes to the underlying allocations of the portfolios. Capital Cities is proposing two options to consider for replacing the existing glidepath structure. Both options offer funds in five year increments and are more conservative than the current roll-down glidepath. In Option 1 the portfolios would glide-down along the existing glidepath, but in five year increments instead of 10 year. Option 2 allows the committee to select a new glidepath in 5 year increments ranging from 80% equities at early stages to 35% at retirement; this is alternative 1. Alternative 2 is more conservative with equity exposure ranging from 60% at the early stages to 30% at retirement.

After much discussion concerning the proposed glidepaths, the roll downs in each alternative as well as considerations given to the timing of the implementation and participant education concerning retirement planning, the Committee asked Capital Cities to move on to the Real Return Search discussion as it will also impact the target date funds. The Committee will then come back to the alternative glidepath options to make a final decision concerning the structure going forward.

<u>Real Return</u>

Target Date Options will be constructed from Tier II Core Options and a new Real Return Option within Tier III. Incorporating Real Return serves as a diversifier for the fixed income allocation and is an inflation hedge. Exposure to Real Return enters the Glidepath at age 55 (2020 Fund) with a 5% initial allocation and steadily increases to 13% at age 65.

During the August 20, 2010 meeting, the committee narrowed the candidates down to BlackRock Inflation Protected Bond and PIMCO Real Return, with a preference of blending the investment options into a custom fund. Cap Cities reiterates that this reflects the best format to get your feet wet with blending customs funds. Custom Multi-Manager Options Offering a custom Inflation-Linked Option within the Plan allows the committee to diversify business and strategy risk among the two investment firms. The custom option would combine the conservative TIPS' strategy of BlackRock with the opportunistic strategy of PIMCO.

<u>FINAL DECISIONS/VOTE:</u>

Five Year Increments: Steffanie made the motion to carry five year increments in the Target Date Funds, Adam seconded the motion. The option was approved unanimously

Real Return: In final discussions concerning real return Steffanie felt that while at first she felt a blend would be better suited for the plan, she now feels that the TIPS product from Black Rock would be better suited to the plan and makes more sense given its lower fee structure and the fact that PIMCO already has a large fixed income exposure with the plan. Adam stated he supported this approach as well. Steffanie made a motion to add the Black Rock Inflation Protected Bond Fund to the Hoosier START Plan. Adam seconded the motion. The motion was approved unanimously. The fund will be called the Inflation Linked Fixed Income Fund and will be added to the target date funds as well as be added as a standalone fund.

Asset Glidepath: Tim mentioned that originally he was inclined to not make any changes but was starting to lean toward option one. Steffanie also stated she was leaning towards Alternative 1. Adam suggested tweaking alternative one with an allocation change at age 60 and 65 reducing the equity exposure to 40% and 30% respectively. Steffanie made a motion to approve glidepath alternative 1 with the allocation change at age 60 and 65 reducing the equity exposure to 40% and 30% respectively. Adam seconded the motion. The motion was approved unanimously.

Mike followed up the voting by advising the changes be treated like an investment change and it should be mapped out with specific dates given to participants. Jim wanted the transition to be addressed to ensure it goes smoothly too. Amanda assured it will be more gradual going forward but acknowledged it could seem more apparent since no changes have been made in quite some time. The change will happen on a given date and not based on age. Tim said he was glad the decision was made so this can be discussed at the Hoosier S.T.A.R.T. educational dinners.

IV. Old Business

No old business to address

V. New Business

No new business to address.

VI. Adjournment

There being no further business before the Committee the meeting was adjourned at 10:23 a.m. Next scheduled meeting is November 19, 2010 in the Government Center Conference Room 17.