MINUTES
PUBLIC MEETING
November 18, 2011
8:30 am
IGCS- conference room 1

I. Call to Order/Roll Call

Auditor Tim Berry called the meeting to order at 8:35 a.m. Other committee members present were Adam Horst and Mike Frick. 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), Jo Bill Wiley and Peter McIsaac 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 19, 2011 meeting. Adam Horst moved to approve the minutes. Mike Frick seconded. The minutes were approved unanimously.

II. Management Consultants Report

Investment Policy Statement

Joe Bill Wiley reviewed the minor changes in the Investment Policy Statement. The current interim guidelines for the Stable Value Fund were removed due to the July 1, 2011 expiration date. Also, the Target Date Funds changes caused the Appendix to be slightly altered to reflect more current allocations.

Tim Berry asked for a motion to approve the IPS. Adam Horst moved to approve the minutes. Mike Frick seconded. The minutes were approved unanimously.

Market Overview

Joe Bill Wiley introduced a Peter McIsaac who is new to their office. He is from Boston and previously worked for Bank of New York. Political and economic turmoil continued during the third Quarter. The bitter debt ceiling debate ended in an 11^{th} hour resolution in early August that averted a default on government obligations. The Fed QE2 bond buying program came to an end and Fed Chairman Ben Bernanke announced the next attempt at spurring economic growth, "Operation Twist", embarking on a plan to sell short-term bonds and purchase long-term bonds in an effort to lengthen the duration of its portfolio. Debt, unemployment and political turmoil are all still concerns surrounding the Federal Budget.

Equities fell across the globe in double-digits during the third quarter. Within domestic equities, the S&P 500 posted its largest decline since the depths of the credit crisis in the 4th quarter of 2008. The 14% drop in the S&P was the 5th worst quarter in 25 years. From a style perspective, growth out performed value among large cap issues, while the trend was reversed among mid and small caps. Within foreign equities, developed markets (-19%) underperformed their large cap US counterparts, while emerging market equities fell further (-22%). The last Quarter performance drove the one-year returns into negative territory for equities among most styles.

Turning to fixed income, Treasuries posted the strongest gains (+6.5%), and lead within fixed income styles over a one-year period (+6.0). High yield bonds (-6.1%) suffered the most during the quarter along with the equity markets.

<u>Considerations & Observations</u>

The PIMCO Total Return Fund has exhibited recent underperformance versus both its peers and index. The bulk of the underperformance occurred during the last quarter, with the Fund posting a return of -1.08% compared to the Barclays Aggregate Bond Index at 3.82%, a difference of 4.90 percentage points. The negative performance ranked the Fund at the 91st percentile of core Bond peers. PIMCO trailed the Index by nearly five percentage points and ranked in the bottom decile of peers over the last quarter. Underperformance was primarily due to the Fund's underweight to Long-term treasuries, which rallied in the market's flight to quality in recent months.

BlackRock Large Cap Value last three- and five-year returns have fallen to the 84th and 73rd percentile of peers respectively, due to the significant underperformance in the third quarter. Recent underperformance is attributed primarily to the Fund's smaller Capitalization bias and focus on pro-cyclical stocks. Capital Cities is conducting a Further Review.

Wells Fargo announced at the beginning of October that Roger Nordberg would depart Fundamental Growth Equity team. Short- and long-term performance (last three- and five-year time periods) ranks in the bottom quartile of peers. A Watchlist Memo is forthcoming.

Artio International announced in September the reduction of its workforce by 25 employees, or 11% headcount. No reductions were made to the investment teams; however, Glen Wisher, President of Artio was let go. The reduction is a result of assets under management being down from market depreciation and net outflows. Cap Cities feels a deeper evaluation is needed and Watch List memo is forthcoming.

<u>Target Date Funds Review</u>

As part of the committee's annual review of the custom Indiana Target date funds, the committees elected to make changes to the asset allocation of the Funds in accordance with the Funds' objectives. Changes are slated to occur at the end of the fourth quarter.

<u>DOL Investment Rule</u>

On October 26th, the DOL published its Final Rule on Investment Advice to DC Participants. There is a laundry list of compliance conditions. Importantly, nothing in the new rule affects any prior DOL regulations, exemptions, interpretive bulletins, etc., pertaining to investment advice.

IV. Old Business

The Retirement dinners that took place this fall were a success. The presentation by Terry Savage will be on-line soon. Many compliments were given and most participants found the information helpful.

V. New Business

No new business was reported.

VI. Adjournment

There being no further business before the Committee the meeting was adjourned at 8:54 a.m. Next scheduled meeting is February 17, 2012 at 8:30 a.m.