



**MINUTES  
PUBLIC MEETING  
May 15, 2009  
9:00 am  
Auditor of State  
Conference Room D**

**I. Call to Order/Roll Call**

Auditor Tim Berry called the meeting to order at 9:00am. Committee members present were Ryan Kitchell , Jim Holden, and Judy Rhodes. 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 (Plan Administrator's Counsel), Janet Sweet 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**

Ryan Kitchell requested one change to the minutes Distinguishing Mike Paton as counsel for the Plan Administrator. Tim Berry asked for a motion to approve the minutes per the amendment. Ryan Kitchell moved to approve the February 20, 2009 Public Meeting minutes. Judy Rhodes seconded the motion, the minutes were approved unanimously.

**III. Administrator's Report**

Auditor Berry announced that the new contract with Great-West Retirement Services is in place with a new fee schedule that went into affect back in April. Under the new fee schedule all new participants are exempt from the administration fee for their first year in the plan; the administration fee for all participants has been reduced to 26 basis points from 26.5 and a maximum asset level of \$90,000 has been established to cap fees so anyone with assets over \$90,000 will not be charged an administration fee on asset levels above that threshold.

Auditor Berry also presented the committee with a Fee Holiday Update. In the 4<sup>th</sup> quarter of 2008 all participants automatically received an administrative fee holiday, however

there was an opportunity to receive a second fee holiday in the 1<sup>st</sup> quarter of 2009 if in the prior quarter a participant took action to set up a meeting with a plan advisor, changed a deferral amount or percentage and/or took advantage of the Reality Investing tools available to them. All retiree's also received this holiday as well. Auditor Berry was pleased to announce that 13,368 participants (or 35%) took advantage of this holiday with a total cost for this second administrative fee holiday coming in at \$84,216.

#### **IV. Management Consultant's Report**

Janet Sweet of Capital Cities began her report discussing the Investment Structure Review provided to the committee in their Performance and Evaluation Packet. Janet began the discussion covering recent developments in Congressional and Regulatory Initiatives including Senator Herb Kohl's (D-WI) recent letter to the Department of Labor to review the asset allocation of various target date funds as his research on the 2010 funds had an equity allocation of anywhere between 8-68% and believes more guidance would be appropriate concerning this issue. Janet also mentioned possible legislation in the future that could require plans to carry an Annuity or Guaranteed Income Option and that Capital Cities would continue to monitor these situations.

Janet then discussed the Asset and Fund Allocation citing there are currently 38,432 participants in the Plans with the majority of plan assets in the Indiana Stable Value Fund (62.3%). A typical stable value allocation within defined contribution plans is 15%. Also the Target Date Lifestyle Funds are currently being used as the default option for the Plan participants. Next Janet discussed the plans current Investment structure breaking the plans 18 investment options out into an array of three Tiers. Tier 1 consisting of the plans six target date lifestyle options comprised of the underlying Tier 2 options. Tier 2 offering seven core investment options and Tier 3 consisting of five Specialty/Legacy options. Janet conveyed to the committee that they are satisfied with the Tiered investment structure, though if they were to use their "Clean Sheet of Paper Model Structure" they would work to get rid of the specialty funds in Tier 3 and limit the investment funds to the seven core options in Tier 2 that allow participants to easily construct broadly diversified portfolios with exposure to all asset classes and styles.

Next on the list of Topics for Capital Cities was the Stable Value Fund Discussion. Amanda Black along with Janet Sweet led the discussion explaining the current Stable Value Fund Structure as well as the recent problems that have been facing Stable Value Products. Most notably the significant underperformance of all non-Treasury sectors over recent periods resulting in a declining Market Value/Book Value Ratio of the Stable Value Fund. Also significant is the fact that AIG's wrap coverage is a concern due to the financial crisis they have endured, while the available "bench" of wrap providers has dwindled with most financial institutions unwilling to underwrite any new stable value wrap business. As a result of this, on going discussions have been going on through Logan Circle with Aegon and ING to address and resolve these problems. As a result of these discussions between Logan and the wrap providers in an effort to improve the MV/BV ratio of the Fund, Aegon has proposed: 1) a revised distribution order of the Stable Value fund to a three-tier withdrawal hierarchy with the SEI Fund being Tier 1,

the Fidelity MIP II Fund as Tier 2, and the Logan Circle managed account as Tier 3. Additionally, Logan Circle will operate under revised investment guidelines that will increase overall credit quality, improve liquidity and shorten durations as proposed by Aegon in their Summary of Proposed Exceptions to Investment Guidelines for Logan Circle Portfolio and Agreement to Accept Portion of AIG Wrap for the State of Indiana Stable Value Fund. Lastly, Amanda stated that the Stable Value Fund crediting interest rate will be lowered from its present 3.09% to 2.75% during June, 2009 and 2.50% for the period July 1, 2009 through August 31, 2009. As a result, if these changes are adopted, Aegon has agreed to take on 50% of AIG's wrap coverage effective July 1, 2009. Also, Amanda noted that just before this meeting ING gave their consent to Logan Circle to take on the other 50% of AIG per the requirements outlined above. Janet Sweet also pointed out that both ING and Aegon have also raised their fees from 7.5 basis points to 15 basis points which are well within their contractual rights as well as following the current industry norm. Following further discussion by the committee, Ryan Kitchell moved that (1) the changes to the Stable Value Fund proposed by Capital Cities in its May 15, 2009 Stable Value Fund Discussion, attached as an exhibit to the Minutes, be accepted and (2) the Deferred Compensation Plan's investment policy statement be amended to reflect the Summary of Proposed Exceptions to Investment Guidelines for Logan Circle Portfolio and Agreement to Accept Portion of AIG Wrap for the State of Indiana Stable Value Fund prepared by AEGON and attached to the May 15, 2009 Stable Value Fund Discussion prepared by Capital Cities, modified by adding to the last bullet point of such summary the following: "The Administrator, in his capacity as a Deferred Compensation Committee member, is authorized to take such action as may be necessary or desirable to ensure this guideline continues to be satisfied." The motion was seconded by Judy Rhodes and approved unanimously.

Amanda covered the manager alert for the Wells Fargo Advantage Capital Growth Fund. Wells Fargo's short term performance over the last three year time period has deteriorated due to significant underperformance. Capital Cities performed a site visit to Wells Fargo and was pleased with the enhancements they were making to their process. Specifically changes to their research process that will increase analyst accountability. Analyst will be charged with knowing the sector and if they don't they will be penalized. They are also beginning to place greater emphasis on quantitative screening of stocks and macro economic trends. Cap Cities recommends retaining them but continue monitoring. Auditor Berry suggested Wells Fargo come to a future meeting for a more complete update to the committee.

## **V. Old Business**

Per Ryan Kitchell's request in the February 20, 2009 Investment Committee meeting, Capital Cities reviewed the possibility of changing the name of the Indiana Income Fund within the Target Date Funds to a name that better represents the investment structure of the fund. After reviewing other plans and similar funds in the industry Capital Cities recommended changing the name from Income Fund to Retirement Fund. Ryan made the motion requesting the change as stated above. Motion was seconded by Jim Holden and approved unanimously. Name change is effective immediately.

## **V. New Business**

Ryan Kitchell made a motion to officially engage Barnes & Thornburg to serve as counsel to the Investment Committee. Motion was seconded by Judy Rhodes and approved unanimously.

Mike Patton reviewed contract extension with Capital Cities on behalf of the committee. Mike has composed a letter to extend the agreement with Capital Cities on behalf of the committee for an additional three years. Under the extension the contract will not expire until June 23, 2011. The extension of the Agreement will not change any of the other terms of the Agreement. The Committee approved the extension unanimously.

## **VI. Adjournment**

There being no further business before the Committee the meeting was adjourned at 10:52 a.m. Next scheduled meeting is August 21, 2009.

# Exhibit A



## Stable Value Fund Discussion

May 15, 2009

Prepared For:

**State of Indiana Public Employees  
Deferred Compensation 457/401(a) Plans**



# Stable Value Fund Structure

*March 31, 2009 Market Value = \$413,373,880*

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**Target Asset Allocation**

- 45% Core Plus
- 45% Defensive Fixed Income
- 10% Cash Buffer

**Current Investment Managers**

- Logan Circle
- Fidelity MIP II
- SEI Stable Asset Fund

**Insurance Wrapper**

- Provides principal preservation and allows smoothed crediting rate

**Current Wrap Providers**

- Aegon (40%), AIG (30%), and ING (30%)

**Current MV/BV Ratio**

- 93%

- The significant underperformance of all non-Treasury sectors over recent periods has resulted in a declining MV/BV Ratio of the Stable Value Fund.
- Due to the market environment, and resulting financial crisis AIG's wrap coverage is in question. Additionally, "bench" of wrap providers has dwindled with most financial institutions unwilling to underwrite any new stable value wrap business.
- Ongoing discussions with Aegon and ING have been taking place to address the issues above.
- Effective January 1, 2009, Aegon raised its wrap fee from 7½ to 15 bps. Effective 4/1/09, ING is also requiring an increase in fee to 15 bps.



# Proposed Changes to Indiana Stable Value Fund

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In an effort to improve the MV/BV Ratio of the Fund, Aegon has proposed the following:

- Revise the distribution order of the Stable Value fund from pro-rata to a three-tier withdrawal hierarchy as follows:
  - Tier 1 - SEI Fund
  - Tier II - Fidelity MIP II Fund
  - Tier III - Logan Circle Managed Account
- Logan Circle will operate under revised investment guidelines.
- Stable Value Fund crediting interest rate will be lowered from its present 3.09% to 2.75% during June, 2009 and 2.50% for the period July1, 2009 – August 31, 2009.

Aegon has agreed to take on 50% of AIG's wrap coverage effective July 1, 2009 if the above changes are adopted inside the Indiana Stable Value Fund. ING has been kept apprised of the negotiations with AEGON and is currently reviewing taking on AIG's other 50%.



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# Attachments

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- State of Indiana Stable Value Fund Status Report dated April 30, 2009 – Provided by Logan Circle.
- Summary of Proposed Exceptions to Investment Guidelines for Logan Circle Portfolio and Agreement to Accept Portion of AIG Wrap for the State of Indiana Stable Value Fund





**Summary of Proposed Exceptions to  
Investment Guidelines for Logan Circle Portfolio and  
Agreement to Accept Portion of AIG Wrap for the  
State of Indiana Stable Value Fund**

Per our conversation on April 22, 2009, we discussed incorporating our new standard investment guidelines effective July 1, 2009, with the following exceptions:

- Grandfather in the assets held as of 2/28/09 classified as 144A's, Alt-A's and Extendables.
- Provide a standard 5% downgrade bucket with no cure period for assets that are downgraded below investment grade.
- Phase out assets already rated below investment grade (included in the standard 5% downgrade bucket) as other assets are downgraded so as not to exceed the 2/28/09 allocation of 16%.
- Allow minimum Government Bonds limitation of 20%  
Allow minimum Government AND Agency MBS limitation to 35%
- Allow maximum Corporate Bonds with maturities between 10 & 30 years limitation of 15%.
- Allow the average aggregate credit quality of Securities in the Account to be at all times at least AA-.
- Portfolio must adhere to Monumental Life guideline weightings by July 1, 2011.

We in turn would take on 50% of the AIG wrap coverage effective July 1, 2009, contingent on our right to exercise a market value termination at any time prior to July 1, 2012, should the following occur:

- the tiered withdrawal hierarchy of the Contract is revised without our consent; or
- the Account balance is equal to an amount no more than \$1,000,000 in excess of the amount held in Tier III.

In the event that the market-to-book ratio of the Logan Circle portfolio is less than 95%, the market-value-termination feature will extend an additional year to July 1, 2013.