



**MINUTES
PUBLIC MEETING
May 11, 2023
9:00 a.m.
IGCS – Wabash Hall, Room 1**

I. Call to Order/Roll Call

State Auditor Tera Klutz called the meeting to order at 9:00 a.m. Committee members present were Mike Frick (Appointee, Treasurer of State), Joseph Habig (Appointee, Governor), and Nancy Marsh (Appointee, Board of Finance). Courtney Schaafsma, Emily Boesen, and Britton Stucker (Auditor of State); Mike Paton (Barnes & Thornburg, Counsel to the Committee and the Administrator); Kevin Mitchell, Michael Burkhart (via video-conference), and Mike Studebaker (Nationwide, Third-Party Administrator to the Plans); and Tiffany Spudich and Susan Somers (Capital Cities, L.L.C., Investment Consultant to the Committee) were also present.

II. Live-Streaming Disclaimer

The meeting was live-streamed. Ms. Somers, of Capital Cities, provided the live-streaming disclaimer.

III. Approval of the Previous Minutes

State Auditor Tera Klutz asked for a motion to approve the minutes from the February 23, 2023 meeting. **Mr. Frick moved to approve the minutes. Mr. Habig seconded. The minutes were unanimously approved.** State Auditor Tera Klutz asked for a motion to approve the minutes from the April 19, 2023 meeting. **Ms. Marsh moved to approve the minutes. Mr. Frick seconded. The minutes were unanimously approved.**

IV. Administrator's Report

State Auditor Klutz informed the Committee that Ms. Oware resigned from the Committee. A recommendation for a new Committee member was submitted to the State Board of Finance.

State Auditor Klutz also informed the Committee that Nationwide presented a Social Security seminar that had great attendance both in-person and virtually by participants. She also mentioned a Nationwide communication error that occurred. Nationwide is researching the error so impacted participants can be informed.

Mr. Mitchell, of Nationwide, reported that Nationwide continues to conduct in person and virtual meetings with participants. Nationwide completed 15 total webinars, which were attended by over 600 participants. Nationwide also conducted 300 site visits in the first quarter, and currently has 11 new prospective adoptions for the Plan.

Mr. Mitchell highlighted that the total Plans' assets were \$1.7 billion, which was an increase of \$85 million. The Plans have nearly 64,000 participants with a balance. Mr. Mitchell also noted that the average account balance has increased to \$26,759 and total salary contributions for the quarter totaled \$27.3 million. Mr. Mitchell reported that the Vanguard Capital Opportunity Fund saw larger than normal exchanges due to the ProAccount platform and rebalancing among investment options.

Mr. Burkhardt, of Nationwide, briefly updated the Committee regarding SECURE 2.0, indicating that Nationwide is working on specific provisions (elimination of the next day of the month rule and self-certification for unforeseeable emergencies) and are hopeful to have procedures in place by June. Mr. Burkhardt also reviewed the 2024 provision for Roth catch up contributions for those earning over \$145,000 and over 50 years of age. He indicated that Nationwide is working to receive IRS guidance and implementation suggestions.

V. Investment Consultant's Report

1Q23 Performance & Evaluation Report

Capital Cities presented the Considerations/Observations' pages of the 1Q23 Performance & Evaluation Report. Ms. Spudich informed the Committee that William Coleman, co-portfolio manager for the Vanguard FTSE Social Index, took on a new leadership role as head of U.S. ETF Capital Markets. Nick Burkett will handle co-portfolio management duties with Gerard O'Reilly who has been a portfolio manager with the Strategy for seven years.

Ms. Spudich noted that T. Rowe Price Blue Chip Growth Fund was placed on Watchlist status at the November meeting given short- and long-term performance. Most recently in the first quarter, the Strategy outperformed the Russell 1000 Growth Index by two percentage points and ranked in the top quartile of peers. Information technology contributed the most due to security selection. Stock selection and an overweight position in communication services also added value.

Ms. Somers presented the first quarter market review. Ms. Somers stated that stocks and bonds both saw positive results in the first quarter, following a strong fourth quarter. In equity markets, most styles posted positive returns. Large Cap stocks outperformed Small Cap, and Growth outperformed Value which was a rotation from the fourth quarter. Large Cap Growth (14.4%) was the best performing equity style during the quarter. Over the one-year period, equity styles remained negative. Turning to fixed income, the Federal Reserve raised rates 50 bps in the first quarter. The Bloomberg Aggregate Bond Index (3.0%) was positive in the first quarter. Most styles of fixed income remained negative for the one-year period except Cash, Defensive and Municipals.

Turning to the Plan Summary page, Ms. Spudich highlighted that the total Plans' assets stood at \$1,714,720,479 as of March 31, 2022, with 20% of the assets in the Plans' default option, the State Street Target Retirement Funds. Ms. Spudich detailed the State Street Retirement Funds returned between 3.5% and 6.8% for the quarter. A summary qualitative and quantitative review ("stoplight grid") of each of the investment options was also provided to the Committee. All the investment options are in good/excellent standing with the exception of T. Rowe Price Blue Chip Growth which was placed on Watchlist status during the November Committee meeting. Capital Cities continues to monitor the Fund's short- and long-term performance.

Annual Fee Analysis

Ms. Somers provided a presentation to assist the Committee in reviewing the Plans' investment management, recordkeeper, administrative and consultant fees. The Fee Analysis documented the close monitoring and benchmarking of the Plans' fees. Ms. Somers noted that the Plans' investment management fees are competitively priced relative to peers. Ms. Somers discussed that PIMCO Total Return's expense is rated Above Average by Morningstar; however, Morningstar does not take into consideration revenue-sharing rebated back to participants in their rating methodology. Ms. Somers also discussed PIMCO Dynamic Bond, which is an underlying fund in the Indiana Flexible Bond Fund. PIMCO offers alternative share classes that are 5 bps less expensive on a net cost basis (~\$7k annual savings); however, Nationwide cannot rebate revenue within a custom fund structure. As a result, an investment share class exchange is not recommended.

Ms. Spudich discussed the share class and commingled fund options available to Fidelity's Low-Priced Stock and Diversified International Funds. Fidelity Low-Priced Stock's Retail share class that is currently offered in the Plans remains the least expensive option on an average historical basis. Fidelity offers an alternative commingled product for the Fidelity Diversified International Fund which is 2 basis points lower than the current K6 share class. Capital Cities recommends transitioning from the K6 share class to the commingled vehicle (~\$14k annual savings), pending execution of the agreements. **Mr. Habig motioned to transition from the K6 share class to the commingled vehicle. Mr. Frick seconded. The Fidelity Diversified International Fund vehicle exchange was unanimously approved (pending execution of agreements).**

Ms. Somers also explained that the Plans' recordkeeper fee is transparent and equitable for participants. Recordkeeper fees were last benchmarked during the Third-Party Administrator Request for Proposal process that occurred in 2021 and subsequent transition to Nationwide in 2022. This process ensured fees and services are competitive.

Recordkeeper fees paid to Empower (the former recordkeeper) and Nationwide during the 2022 calendar year totaled \$3,214,597. The total annual average fee per participant (investment management expense and recordkeeper fee) was approximately 47 basis points. In addition, Ms. Somers noted that Empower and Nationwide collected \$1,566,456 in calendar year 2022 for their Managed Account Services (Reality Investing and ProAccount). After the recordkeeper transition, participants were given a 90-day free trial of ProAccount.

Finally, the Committee reviewed the \$3/participant administrative fee that covers the Auditor of State Plan-related expenses, including personnel, legal, audit and investment consultant expenses. Ms. Somers noted that expenses in 2022 exceeded the administrative fee paid to the Unallocated Plan account; however, expenses were greater in 2022 due to the recordkeeper transition. Finally, Ms. Somers discussed the investment consultant expenses, which was benchmarked and negotiated as part of the 2020 Investment Consultant Request for Proposal process.

Passive Survey

Ms. Spudich reminded the Committee that a Broad Agency Announcement was issued for the Plans' passive mandates in order to survey for potential fee reductions. The Committee also previously approved exploring the potential to enhance the Plans' investment menu by offering an active and passive option in each major asset class, which would require adding a Core Bond Index Fund and an International Equity Index Fund to the investment menu.

The Broad Agency Announcement was issued at the end of January and the search was advertised in Pensions & Investments and the Indianapolis Star. Responses were received from five firms by the March 22nd deadline. Capital Cities conducted a thorough qualitative and quantitative review of each of the respondents. One new provider (Northern Trust) was chosen for an in-depth presentation and interview with Capital Cities.

Capital Cities recommended maintaining the existing equity and fixed income passive managers given the findings of the Broad Agency Announcement. Capital Cities also recommended addressing the potential addition of International Equity Index and Core Bond Index options as part of the next Committee meeting discussion.

Self-Directed Brokerage Account

Ms. Spudich provided a recap of the Self-Directed Brokerage Account Education presentation, along with the Schwab presentation given to the Committee during the April meeting. The Committee expressed an interest in adding Self-Directed Brokerage Accounts to the investment menu; however, restricting publicly traded limited partnerships. The Memo of Understanding will be further evaluated. The Committee will discuss the potential inclusion of a Self-Directed Brokerage Option again at the September 7th meeting.

VI. Legal Update

None.

VII. Old Business

None.

VIII. New Business

State Auditor Klutz informed the Committee that her new title will be State Comptroller effective July 1st.

IX. Adjournment

With no further business before the Committee, the meeting was adjourned at 9:58 a.m. **Ms. Frick motioned for adjournment. Mr. Habig seconded the motion.** The next quarterly meeting is scheduled for Thursday, September 7th, at 9:00 a.m.