



Minutes of the Ohio Tuition Trust Authority Investment Board Regular Meeting

OTTA Investment Board Meeting – Thursday, August 13th, 2020
Virtual Meeting via Webex due to COVID-19 pandemic teleworking policy

CALL TO ORDER: 10:00 a.m.

Mr. James Benson brought the meeting to order and reviewed the virtual meeting procedure and expectations. He then thanked everyone for their continued work during the COVID-19 crisis.

Ms. Nancy Braun conducted a roll call and announced a quorum was present.

BOARD MEMBERS PRESENT:

Executive Investment Board Members: James Benson, Charles See, David Kosanovic, Ann Womer Benjamin, Bill Elliott, Jack Green

Legislative Investment Board Members: Representative Jay Edwards, Representative John Rogers, Senator Sandra Williams

Ohio Tuition Trust Authority (OTTA) Staff: Tim Gorrell, Executive Director; Trisha Good, CFO/CIO; Dave Kemp, Director of Customer Service and Operations; Shreekanth Chutkay, Director of Information Technology; Ben Gibbons, Director of Marketing; Judy Cunningham, Community Outreach and Public Relations Manager; Michelle Chavanne, General Counsel; Jeff Fogel, General Counsel; Nancy Braun, Executive Administrative Assistant

Others present: Craig Svendsen, NEPC; Mary Ryan, Vanguard; Julia Ward, Vanguard; Mike Montanez, Vanguard; Steven DiGirolamo, Wilshire; Jessica Voltolini, Ice Miller; Alan Perry, Milliman

This meeting was properly noticed in accordance with the provisions of Ohio Administrative Code §3334-1-02, adopted in accordance with Section 111.1.15 of the Ohio Revised Code.

APPROVAL OF MINUTES

Chairperson James Benson asked for any questions or comments on the OTTA Investment Board minutes of the May 14th, 2020, meeting. There were none. Mr. Benson called for a vote to approve the minutes. Representative Rogers made a motion to approve. The motion was seconded by David Kosanovic. A roll call vote was taken. The motion was approved.

GUARANTEED SAVINGS PLAN

Investment Update

Craig Svendsen of NEPC, OTTA's management and investment consultant firm, began the discussion of the Guaranteed Savings Plan (GSP) with the Q2 2020 Investment Performance Analysis.

For the fiscal year ending June 30, 2020, the plan assets stood at \$210.6M and the plan returned 4.7 percent year over year. There were no due diligence updates for the plan's managers during Q2. Staff, NEPC and Milliman have been discussing the actuarial return assumption for the GSP. To advance this discussion, NEPC has modeled the current asset allocation of the GSP using their June 30, 2020 capital market forecasts. The expected investment return for the GSP is 1.5%. The performance of the Loomis' custom treasury strategy, where the majority of GSP assets are invested, has been in-line with expectations. Given the strong financial position of the GSP, NEPC does not recommend taking more risk to increase expected returns.

Actuarial Valuation

Mr. Alan Perry of Milliman spoke next on the annual actuarial valuation of the Guaranteed Savings Fund (resolution FY20-04).

Mr. Perry started by explaining that OTTA has selected 1.5 percent as the expected long-term annualized rate of return on the GSP investments. This is 1.5 percent lower than the 3.0 percent assumption used in last year's valuation. In addition, the agency selected a tuition growth assumption of 4.25 percent each year which is 0.75 percent lower than the 5.0 percent assumption used in last year's valuation.

Mr. Perry stated that GSP is very healthy. As of June 30, 2020, the Guaranteed Savings Plan has sufficient assets to cover the actuarially estimated value of the tuition and expense obligations under all credits and units outstanding as of that date.

The starting Market Value of Assets as of July 1, 2020 is \$210.4 million. Based on the actuarial assumptions the GSP is expected to have a cumulative actuarial reserve of \$121.8 million by 2047, when all credits and units are expected to have been redeemed.

Mr. Perry stated that as we are not certain what the weighted average tuition (WAT) will be at this meeting, this is just an estimate. However, the GSP is so well funded it will not be impacted by interest rates, therefore leaving a large reserve for growing tuition rates.

Senator Williams asked for clarification on the cash flow projection chart. Mr. Perry explained that amounts are rounded to the nearest \$100 thousand. Jeff Fogel, OTTA General Counsel, asked if a maximum WAT could be given for the current projection. Discussion ensued. It was agreed to set the WAT valuation at or below \$120.00/unit for this resolution.

Mr. Benson asked if there were any other questions. There were no further questions.

Mr. Benson called for a vote on resolution FY20-04. Charles See made the motion, which was seconded by Representative Rogers. A roll call vote was taken. The resolution passed unanimously.

VARIABLE SAVINGS PLAN INVESTMENT UPDATE

Direct Plan Performance

Mr. DiGirolamo provided an update on the Direct Plan performance. He started by saying the diversification within the investment options is paying off during the current stock market volatility. Most asset classes continue to move forward even with recent declines. Senator William asked if specific commodities, such as gold, are held within our investment plan. Mr. DiGirolamo explained that the plans take a much broader approach to reduce exposure to volatile markets. Mr. Benson explained that individual account holders can select funds depending on the plan they have chosen. Mr. Svendsen confirmed there are no special commodities held within the plans at this time.

Mr. DiGirolamo walked the investment board through the investment performance charts for the enrollment-date funds, age-based funds, risk-based funds, and individual funds. Despite the rough first quarter, all funds have shown a positive performance this quarter with 91% outperforming their peer group. He stated this quarter has shown overall good returns.

BlackRock Advisor Plan

Mr. DiGirolamo next discussed BlackRock Advisor Plan performance with the investment board. The enrollment-date funds all had positive returns, with a strong absolute performance against 529 peers. He shared the performance of Blackrock Global Allocations as a strong example of performance stating it was up 14.6% and performed in the top half of its peer universe this quarter. In addition, over the year it saw a 2.2% increase and ranked within the top 5% of its peer universe. Mr. DiGirolamo closed his presentation by stating that we can expect volatility in the current environment but we are in a good position moving forward. There were no further questions from the board.

EXECUTIVE DIRECTOR UPDATE

OTTA Executive Director Tim Gorrell started his report with the announcement that as of June 30th, 2020, Ohio is the nation's seventh largest sponsor of 529 plans with total Assets Under Management (AUM) at \$12.9 billion. Ohio's change in AUM quarter over quarter, at an increase of 13.8%, is slightly better than the 529 industry average. A strong asset base makes it possible to keep administrative costs to a minimum as a percentage of assets. Mr. Gorrell then shared that Ohio is also the nation's sixth largest sponsor of a Direct Plan with \$7.2 billion in AUM and the fifth largest sponsor of an Advisor Plan with total AUM of \$5.69 billion.

Mr. Gorrell shared the customer service phone lines were turned back on at the end of June and all of our customer service representatives are now working remotely. He shared that they are working effectively as shown in the number of incoming calls and answer rates. For example, so far in the month of August they have received over 2,600 calls with a 99% answer rate. He commended the team for their seamless transition. Marketing strategies have also changed as a result of the COVID-19 pandemic. Mr. Gorrell shared the goal to grow new accounts and existing accounts was set at 10% and we are at approximately 13% this year as shown in the marketing reports.

Mr. Gorrell asked Jessica Voltolini, lead negotiator from Ice Miller, to provide an update on the Blackrock contract status which the board was briefed on at the May meeting. Ms. Voltolini stated the contract is in the final stages of negotiations and will be brought to the

board in November for approval. She stated the process has gone smooth thus far and complimented the team on their work.

Mr. Gorrell shared the annual Morningstar presentation will be held virtually on September 1, 2020. He will email the Morningstar presentation to the board when it is completed and invited them to listen in on the presentation September 1st.

Mr. Gorrell requested the board review the 2021 meeting dates and verify at the November meeting whether to keep or change the dates. The only exception is that the meetings cannot take place prior to the 7th week in the quarter allowing for all required data to be collected.

Senator Williams asked if we have seen an increase or decrease in people investing in college during the pandemic. Mr. Gorrell stated we have seen a 13% increase. Mr. Benson asked Mr. Gorrell if this 12-13% increase was in new and existing accounts. Mr. Gorrell stated that it is and shows that the fund is strong and people are staying the course even in this difficult time.

There were no relevant legislative updates on either the state or federal level.

Mr. Gorrell announced the next investment board meeting is scheduled for November 12, 2020. Due to the ongoing COVID-19 health crisis, this meeting will be held virtually.

VANGUARD PRESENTATION

Mr. Benson announced that he would be recusing himself as chair from the remainder of the board meeting and asked Representative Edwards, as co-chair, to chair for remaining agenda item and close the meeting.

Direct Plan – Interest Accumulation Portfolio Recommendation

Mary Ryan, senior relations manager with Vanguard, provided a presentation on the Federal Money Market Option. Due to a number of factors, Vanguard is recommending OTTA map all participants with Vanguard Federal Money Market exposure to Vanguard's Interest Accumulation Portfolio.

Mike Montanez, manager and senior specialist for Vanguard's Stable Value product presented an overview of Vanguard's Interest Accumulation Portfolio (aka Stable Value). Mr. Montanez explained Stable Value is an investment vehicle that provides investors with current yield and capital preservation. The Stable Value structure provides investors with a competitive investment yield that is expected to consistently exceed what is available from a money market fund, but with many of the same risks.

Steve DiGirolamo provided a summary of the research Wilshire has completed and their recommendation to move forward with this conversion. Wilshire recommends replacing the Vanguard Federal Money Market Fund with Vanguard's Stable Value strategy, the Interest Accumulation Portfolio, across the plan line-up. Stable Value strategies in general have seen fee structures decrease over the last few years as imbedded wrap fees continue to drop. Wilshire believes that investors face an extended period of historically low interest rates. In such markets, Stable Value strategies provide the potential for modest gains net of fees, which is attractive when compared to a zero to negative net of fee return profile offered by money market funds. Mr. Kosanovic asked for further clarification regarding other options. Discussion ensued.

Representative Edwards called for a vote on resolution FY20-05. Representative Edwards made a motion to adopt the resolution. Ann Womer-Benjamin seconded the motion. A roll call vote was taken. The resolution passed.

Mr. Gorrell informed the board of Mary Ryan's departure from Vanguard and thanked her for her service as OTTA's senior relations manager with Vanguard. Ms. Ryan introduced Julia Ward who will be her replacement.

NEW BUSINESS

Representative Edwards asked if there was any new business to discuss. There was none.

PUBLIC PARTICIPATION

Representative Edwards asked if there was any public participation. There was none.

ADJOURN

Representative Edwards made a motion to adjourn the meeting. The motion was seconded by David Kosanovic. A unanimous voice vote was taken. The meeting was adjourned at 11:33 a.m.

Signed by:



Print name: _____

JAMES D. BENSON

Date: _____

11/12/20