



Minutes of the Ohio Tuition Trust Authority Investment Board Regular Meeting

OTTA Investment Board Meeting – Thursday, August 15, 2019
77 S. High Street, 31st Floor, West B & C Conference Room, Columbus, Ohio 43215

CALL TO ORDER: 10:06 a.m.

Ms. Amy Lyle conducted a roll call and announced a quorum was present.

BOARD MEMBERS PRESENT:

Executive Investment Board Members: James Benson, Michelle Chavanne (Chancellor's Designee); William Elliott, Matthew Kirby, and David Kosanovic.

Legislative Investment Board Members: Representative John Rogers and 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; Nancy Braun, Executive Administrative Assistant; Amy Lyle, Communications Coordinator; and Jamie Fellrath, App Developer and Data Analyst.

Others present: David Lindberg and Stephen DiGirolamo, Wilshire; Craig Svendsen, NEPC; Alan Perry, Milliman; and Lisa Critser, Legal Counsel, Office of the Ohio Attorney General.

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 16, 2019, meeting. There were none. Mr. Benson called for a vote to approve the minutes. Rep. John Rogers made a motion to approve. The motion was seconded by David Kosanovic. A voice vote was taken. The motion was approved.

EXECUTIVE DIRECTOR UPDATE

Executive Director Tim Gorrell welcomed the investment board members and noted that there is one voting item on the meeting agenda. Mr. Gorrell started his report with the announcement that as of June 30, 2019, Ohio's 529 Plan had \$12.4 billion in Assets Under Management (AUM). He then stated that Ohio's Direct 529 Plan remains ranked sixth nationally and the Advisor Plan is ranked fourth nationally for AUM. Savingforcollege.com, an industry-trusted informational website, has ranked Ohio's Direct 529 Plan as first in the nation for five- and 10-year investment performance and fifth in the nation for one- and three-year investment performance.

At the May 2019 meeting, the investment board approved OTTA's recommendation of moving forward with contract negotiations with Ascensus to continue as the Ohio's Direct 529 recordkeeping partner, and Vanguard to continue as an investment partner. Mr. Gorrell informed the investment board that negotiations are ongoing and include active participation from Michelle Chavanne, who serves as the Ohio Department of Higher Education Chief Legal Counsel and OTTA's in-house counsel, and Jessica Voltolini, with local law firm Ice Miller, brought on as outside legal counsel during this contract process. Ms. Voltolini previously was the in-house legal counsel for OTTA. The investment board will be presented the final contracts at the November 2019 meeting for their voting approval.

During the BlackRock contract extension negotiation, BlackRock requested a longer term of contract. The reasons to consider this request will be presented to the investment board during the Advisor Plan contract discussion.

Alan Perry from Milliman, the actuary for the CollegeAdvantage Guaranteed Savings Plan, will give the annual actuarial evaluation, on which the investment board will vote. Mr. Gorrell stated that there will also be a discussion on the long-term strategy for the Guaranteed Savings Plan.

Mr. Gorrell told the investment board that the annual Morningstar meeting will take place on Wednesday, Sept. 4, 2019. Mr. Gorrell and Ms. Trisha Good will represent OTTA at this meeting with Mr. David Lindberg and Mr. Steve DiGirolamo with Wilshire, the program's Investment Consulting firm, accompanying them. As OTTA offers both a Direct 529 Plan and an Advisor 529 Plan, BlackRock will also attend the meeting to supply details on advisor side of the savings program and to show that Ohio's 529 Plan is a united program with two components.

Per investment board guidance from May 2019 meeting, Mr. Gorrell informed the members that the OTTA staff did the requested due diligence on the fees being charged by Ascensus and Vanguard and are prepared to discuss the discoveries.

DIRECT PLAN

Vanguard

Ms. Good began the due diligence fee discussion on Vanguard, one of OTTA's investment managers for the CollegeAdvantage Direct 529 Plan. Ms. Good shared that all mutual fund investors have the underlying fund expenses (UFE) ratios based on AUM. The Ohio Direct 529 Plan has 14 underlying Vanguard funds and 10 have the lowest possible UFE. The remaining four funds have further price breakdowns available.

As the sponsor and program manager of Ohio's Direct 529 Plan, Ohio has an Investment Plus relationship with Vanguard, where the firm provides investment methodology and portfolio accounting for the state. When compared to seven other states that have the same business relationship with Vanguard, Ohio is charged one of the lowest basis points (bps) so the fees are very competitive.

Ms. Good continued with the in-depth analysis of the fees. After reviewing many states' Direct Plan Offering Statements, OTTA's financial department discovered that Iowa Direct 529 Plan contains five of the identical investment options as Ohio, including the same underlying funds and asset allocations. After comparing the bps, Ohio has lower fees in four out of five options.

Ms. Good attempted to compare Ohio's Direct Plan fees to those of one of the largest 529 programs, New York. A direct comparison between the two programs was impossible as there are no identical investment options as each plan has different underlying funds and different asset allocations, which leads to different expense ratios and performance.

Then Ms. Good paused for questions. Mr. Benson asked how Morningstar regards fees in determining their rankings for each 529 program. Ms. Good responded that Ohio fares well, based on all the public information available on other 529 programs' fees. Ms. Good and Mr. DiGirolamo both stated that as fees are being compressed down across all 529 plans, Morningstar has de-emphasized the fees as there is less difference between the plans now. There were no further questions.

Ascensus

Ms. Good then spoke on the due diligence completed on Ascensus fees. Ascensus serves as the program manager or provides recordkeeping services for 18 direct 529 plans. The program manager fees range from 6-55 bps. Ohio is ranked in the six direct plans with the lowest Ascensus program manager fees. From the current 11 bps Ohio's Direct 529 Plan is charged, Ascensus pays a sub-recordkeeper for certain administrative and recordkeeping services, an output provider for document production and fulfillment services, a cash manager for cash management services for clearing cash transactions, and a portfolio account administrator for certain administrative services, including sub-transfer agency and accounting services.

Based on this expense analysis, Ms. Good believes that OTTA is very competitive. She also shared that during current contract negotiations, Ascensus is offering more AUM breaks. Then she asked if there were any questions.

Mr. Benson asked, based on her research, if Ms. Good thought that other states may have received a better deal on their Ascensus fees for a longer contract. Ms. Good replied that all the data was pulled from the most recent 529 offering statements. She will pull the numbers again to check for any changes before the November 14, 2019, investment board meeting.

Mr. Benson thanked Ms. Good for all the due diligence research and report preparation. Mr. Gorrell added that the Vanguard and Ascensus contracts will be presented and voted on during the November 14, 2019, investment board meeting.

ADVISOR PLAN

BlackRock

Mr. Gorrell started the contract discussion on BlackRock, the current CollegeAdvantage Advisor 529 Plan program manager that provides investments, record-keeping, marketing, and distribution services. At the May 16, 2019, meeting, the investment board approved OTTA to pursue a two-year contract extension with BlackRock (resolution FY19-04) in order to better stagger the contract negotiations for OTTA's three large partnerships with Ascensus, Vanguard, and BlackRock. The current BlackRock contract will end on June 14, 2021.

During initial contract discussions with BlackRock, the firm asked OTTA for a three-year extension. Therefore OTTA wanted to bring this provision to the investment board. Ms. Good stated that BlackRock would prefer a longer extension due to their efforts to increase OMNI relationships and I-Share class now being offered. Ms. Chavanne stated that the extension can be amended while OTTA and BlackRock continue contract negotiations.

Mr. DiGirolamo added that the BlackRock three-year extension request will allow the firm more leverage to pool resources to build out additional OMNI relationships. Mr. David Lindberg of Wilshire stated that messaging will be key during contract negotiations as OTTA and Wilshire value and want to continue the positive working partnership with BlackRock.

Mr. William Elliot asked if OTTA would miss out on any opportunities to negotiate lower fees with a longer contract with BlackRock. Mr. Matt Kirby stated with the current fee compression, he's not sure how much lower fees can go. Mr. DiGirolamo agreed, saying that fee compression could push current 529 providers out of the field, which would drive up fees for the remaining firms.

Mr. David Kemp, OTTA's Director of Customer Service and Operations, added that BlackRock has added Fidelity Investments as an OMNI partner and are in talks with Raymond James. This is a significant investment by BlackRock to interconnect all the systems. BlackRock is also adding new fee-based investment options (I-Share Class), in order to attract advisors with this type of structure.

Mr. Kirby added that now might be a good time to start contract negotiations as the AUM is at its highest in case there is a recession.

Mr. Benson asked if there were any questions. Discussion ensued.

The investment board approved OTTA to investigate alternative terms longer than a two- or three-year extension with BlackRock due to two entities' commitment to the partnership. OTTA will bring a draft resolution to the November 19, 2019, meeting.

STAROhio Plus

The next discussion item was an investment strategy recommendation from Meeder Public Funds Advisory. The proposal for StarOhio is to add laddered CDs to the FDIC-insured products. This allocation would gain OTTA an estimated additional \$70,000 in annual interest income while protecting the income already in the fund. Ms. Good stated that OTTA would like to move forward on this change before interest rates changes. Mr. Kirby

asked if there was additional fees with employing this strategy. Ms. Good said no. The investment board agreed with OTTA to move forward with the strategy.

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 2019 Investment Performance Analysis.

For the fiscal year ending June 30, 2019, the plan assets stood at \$237.3M and the plan returned 4.5 percent year over year. The performance of the Loomis' custom treasury strategy, where the majority of GSP assets are invested, has been in-line with expectations.

At an earlier investment board meeting, the motion was approved to further de-risk the fund by reducing the amount of equity in the GSP from 29 percent to 10 percent. Due to this program restructuring, the fund remains in good standing in spite of the current volatile economic environment.

Mr. Svendsen also pointed out that there is more cash in the current GSP asset allocation as this quarter is when account owners take the largest amount of withdrawals to cover qualified higher education expenses.

Actuarial Valuation

Mr. Alan Perry of Milliman spoke next on the annual actuarial valuation of the fund (resolution FY19-07).

Mr. Perry started by explaining that OTTA has selected 3 percent as the expected long-term annualized rate of return on the GSP investments and that the agency selected a tuition growth assumption of 5 percent each year. Mr. Perry added that the tuition growth assumption is still higher than the usual growth of 4.88 percent, which adds a cushion to the plan.

Mr. Perry stated that GSP is very healthy. The present value of obligations for future payments is \$163.9M. The current market value of the GSP assets is \$237.1M, which creates an actuarial reserve of \$73.2M. Based on these numbers, the GSP fund is 145 percent fully funded.

Mentioning that the GSP has been closed to new accounts and new contributions since Dec. 31, 2003, Mr. Perry stated that there are 17,927 Guaranteed 529 Plan accounts and the credits and units within the accounts can be transferred. Mr. Benson asked how the accounts can be transferred. Mr. Kemp responded that the first rule is that credits and units can only be transferred once; however, the credits and units can also be transferred to an Ohio Direct 529 Plan or an Ohio 529 Advisor Plan without any tax ramifications. As for transferring the credits and units within the Guaranteed Plan, Mr. Kemp stated that if the current beneficiary is aged 19 or younger, the transfer can be to a family member that is either younger or older. If the current beneficiary is 20-21, the transfer must be to a family member who is older than 22. If the current beneficiary is 22-27, the transfer must be to a family member who is younger than 28 and must provide proof that the new beneficiary is currently enrolled in college.

Sen. Williams asked what would happen to the Guaranteed 529 account if no one in a family chooses to continue their higher education. Mr. Kemp stated that the account owner will not lose the funds if the account is not utilized for higher education. Mr. Benson asked what if OTTA cannot find an account owner. Mr. Kemp said that currently the Ohio Revised Code (ORC) doesn't allow for the escheatment of 529 funds within Ohio.

According to projections, Mr. Perry said payouts should dwindle by 2026, which is when a beneficiary who was born in 2003, the year that the Guaranteed Plan was closed, will be 23 years old and should be finishing their higher education.

Mr. Benson asked Mr. Perry if he was satisfied that all the data is consistent and reconciled. Mr. Perry said yes, stating that the numbers are what he expected.

Mr. Benson asked if there were any other questions. Discussion ensued.

Mr. Benson called for a vote on resolution FY19-07. Mr. Kosanovic made the motion, which was seconded by Rep. Rogers. The resolution passed unanimously.

VARIABLE SAVINGS PLAN INVESTMENT UPDATE

Direct Plan Performance

Mr. Lindberg 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.

Mr. Lindberg walked the investment board through the investment performance charts for the enrollment-date funds, age-based funds, risk-based funds, and individual funds. For the enrollment-date funds, the quarterly returns were positive, and in the top 50 percent of the Morningstar universe. The Vanguard age-based funds' performance was strong; however, the more conservative options were a little lower as the equity is what is driving the higher 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.

Mr. Benson asked if there were any questions. Discussion ensued.

ADJOURN

As Sen. Williams needed to leave the investment board meeting, which ended quorum, Mr. Benson called for a vote to adjourn the meeting. Mr. Kosanovic made a motion to adjourn. The motion was seconded by Rep. Rogers. A unanimous voice vote was taken. The meeting was adjourned at 12:14 p.m.

However, the meeting continued as an informational session to discuss the marketing report.

MARKETING UPDATE

Mr. Gibbons began by restating the current OTTA marketing department goals are (1) increase new plan enrollments by 10 percent annually, and (2) increase plan contributions by 10 percent annually. For FY19, new enrollments were up 4.7 percent and contributions were up 13.9 percent.

The past two advertising campaigns shared that 529 plans can be used for whatever comes after high school, whether a traditional four-year program, two-year community college, trade or vocational school, or certificate program. If the threat of a recession lingers, the marketing department will look at promoting the use of 529s for adult learning.

Mr. Gibbons informed the board that Falgren Mortine SBC was selected as OTTA's advertising agency for the next two years.

Then Mr. Gibbons shared the FY 2019 conversion rates from various sweepstakes. The largest number of new accounts and highest conversion rate came from the Blue Jackets sweepstakes. There was increased community visibility of Ohio's 529 Plan through various partnerships with professional sports organizations and related non-profit organizations focused on reading and positive classroom performance. Mr. Gorrell added that the marketing representatives for employers and for schools and libraries are making great strides to get Ohio's 529 Plan into new venues.

Lastly, Mr. Gibbons shared the Fox Sports Ohio television ad supporting the Cincinnati Reds sweepstakes and previewed the fall football ad, in support of multiple partnerships.

Mr. Benson asked if there were any comments or questions. There were none. Mr. Benson then thanked Mr. Gibbons for all the hard work.

NEW BUSINESS

Mr. Benson asked if there was any new business to discuss. Mr. Gorrell added for the investment board members who received a letter from the ethics commission to forward it to Ms. Chavanne for review.

PUBLIC PARTICIPATION

Mr. Benson asked if there was any public participation. There was none.

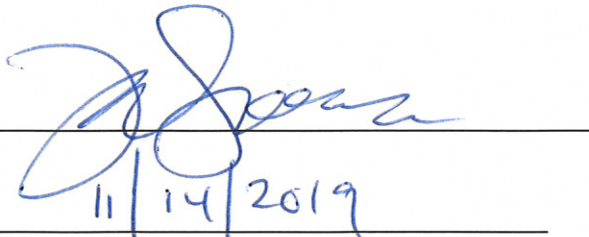
ADJOURN

The informational session was adjourned at 12:32 p.m. The next meeting of the Ohio Tuition Trust Authority Investment Board is Thursday, November 14, 2019.

Signed by:

Print name: _____

Date: _____

Handwritten signature in blue ink over a horizontal line, with the date "11/14/2019" written below the signature.