



Minutes of the Ohio Tuition Trust Authority Investment Board Regular Meeting

OTTA Investment Board Meeting – Thursday, November 15, 2018
77 S. High Street, 19th Floor, Room 1960, Columbus, Ohio 43215

CALL TO ORDER: 10:08 a.m.

The meeting was called to order at 10:08 a.m. A quorum was present at the time with 10 of 11 OTTA Investment Board members in attendance. The eleventh member arrived partway through the meeting.

BOARD MEMBERS PRESENT:

Executive Investment Board Members: James Benson, Ann Womer Benjamin, William Elliott, Jack Green, Matthew Kirby, David Kosanovic, and Michelle Chavanne, who was the representative for Charles See.

Legislative Investment Board Members: Representative Michael Duffey, Senator Stephanie Kunze, Representative John Rogers, and Senator Sandra Williams.

Ohio Tuition Trust Authority (OTTA) Staff: Tim Gorrell, Executive Director; Trisha Good, CFO/CIO; Shreekanth Chutkay, IT & Data Manager; Ben Gibbons, Director of Marketing; Dave Kemp, Director of Customer Service and Operations; Amy Lyle, Communications Coordinator; and Mark Smith, OH-Tech.

Others present: David Lindberg, Wilshire; Stephen DiGirolamo, Wilshire; Craig Svendsen, NEPC (via phone); Tarun Garg, Tom Morgan, John Park, Vidya Gunasekaran, Charlie Stolz, all of BlackRock; 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 August 16, 2018, regular board meeting. There was none. Mr. Benson called for a vote to approve the minutes. Rep. Rogers made a motion to approve. The motion was seconded by Mr. Kosanovic. A voice vote was taken. The motion was approved.

EXECUTIVE DIRECTOR UPDATE

Executive Director Tim Gorrell welcomed board members and noted that there are one (1) voting items on the meeting agenda. Mr. Gorrell stated that Ohio's Direct 529 Plan is now the sixth largest in the nation, surpassing Massachusetts' college savings program. Ohio's 529 Plan currently has overall customer assets under management of \$11.7 billion.

Mr. Gorrell also spoke on Ohio's Direct 529 Plan retaining a silver ranking from Morningstar. Additionally to the ranking, Mr. Gorrell noted the CollegeAdvantage Direct Plan was only one of four plans in the country that attained a positive ranking in all five of Morningstar's pillars:

- 1) Process — What investment options are offered? If there were recent asset allocation changes, did the program administrator hire a well-respected firm for their expertise?
- 2) People — Who are the underlying fund managers and their expertise?
- 3) Parent — How strong is the oversight of the program manager?
- 4) Performance — How are the investment options performing and does it set a strong precedence?
- 5) Price — Are the offered investment options of value to the account owner and does the program offer low fees?

Mr. Gorrell offered to let the BlackRock representatives speak about the bronze ranking the BlackRock CollegeAdvantage 529 retained from Morningstar. Mr. Morgan did take the opportunity to speak briefly that BlackRock appreciates that Ohio Tuition Trust Authority continues to ask them to present to Morningstar together and that they were pleased with their continuing bronze ranking.

Mr. Gorrell also relayed that Governor-elect Mike DeWine has announced three positions as part of his transition, Transition Director, Communications Director and Children's Initiatives Director. More leadership positions are expected to be filled soon.

GUARANTEED SAVINGS PLAN INVESTMENT AND VOTE

Craig Svendsen of NEPC spoke via phone to the OTTA Investment Board for an update on CollegeAdvantage Guaranteed Savings Plan (GSP). The plan assets are at \$254 million as of September 30, 2018. The plan returned 0.7 percent during the quarter and 2.1 percent over the last one-year period.

Mr. Svendsen also spoke of the change of management at PIMCO as the founder, chairman, and CEO of research was transitioning the CEO title to the current president and COO of PIMCO. NEPC is not concerned about this change so no action is needed.

Mr. Svendsen then spoke about NEPC recommendation of further de-risking the GSP. The program, closed to new accounts and contributions since December 31, 2003, is sufficient funded to more than meet the current plan payouts.

NEPC recommended to terminate the GMO strategy and to reallocate those assets to Loomis Sayles, which created a treasury portfolio that will further reduce asset risk,

increase investment diversification, and allow for a higher match of assets and liability cash flows while keeping expected returns above the current actuarial assumed return.

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

Mr. Benson called for a vote on resolution FY19-01, which was seconded by David Kosanovic. A voice call was held and the FY19-01 passed unanimously.

VARIABLE SAVINGS PLAN INVESTMENT UPDATE

Direct Plan Performance

Mr. Stephen DiGirolamo of Wilshire provided an update on the Direct Plan performance. For the quarter, 10 percent of the enrollment-date options ranked in the top half of their respective 529 peer universes, which is expected as there is less growth and equity in these new glide paths. For the rest of the 529 investment options in the quarter, 33 percent of age-based options ranked in the top half of their respective 529 peer universes; 61 percent of risk-based and individual fund options ranked in the top half of their respective peer universes and 38 percent of total funds ranked in the top half of their respective peer universes.

Mr. DiGirolamo stated that over a one-year period, 31 percent of Direct Plan age-based options ranked in the top half of their respective 529 peer universes while 72 percent of risk-based and individual fund options ranked in the top half of their respective peer universes and 55 percent of total funds ranked in the top half of their respective peer universes. The enrollment-date options have only been available since May 15, 2018, so there is no one-year data available.

Mr. DiGirolamo specifically pointed out that in the five-year period, 71 percent of risk-based and individual fund options ranked in the top half of their respective peer universes.

Mr. DiGirolamo added that all funds in the Direct Plan are in "No Action is Required" status.

BlackRock Advisor Plan

Mr. Stephen DiGirolamo informed the board BlackRock has done well against its peers. For the quarter, 80 percent of enrollment-date options were ranked in the top half of their respective 529 peer universes; 55 percent of risk-based and individual fund options ranked in the top half of their respective peer universes and 60 percent of all funds ranked in the top half of their respective peer universes.

Over the past year, 65 percent of risk-based and individual fund options ranked in the top half of their respective peer universes and 65 percent of all funds ranked in the top half of their respective peer universes. BlackRock launched new enrollment date options in December 2017; therefore, their performance will build from that time forward.

Mr. DiGirolamo added that five (5) funds in the Advisor Plan are still on "Watch" status and continued to be closely monitored. Mr. Benson asked if Mr. Morgan if he had anything he

wanted to add. Mr. Morgan replied that they too are watching these funds and he appreciates Wilshire working with BlackRock on these funds.

Fifth Third Rate Update

The board was informed that Fifth Third Bank have increased the rates of four of their 529 CD terms on Nov. 1, 2018. The 3-5 Month 529 CD Annual Percentage Yield (APY) is now 2.0 percent. The interest rate for 6-11 Month 529 CD increased to 2.25 percent APY. For the 12-23 Month 529 CD, the rate is now 2.50 percent APY. The APY for the 24-35 Month CD increased to 2.75 percent. The CD terms 36 months and greater remain at 2.50 percent.

Mr. Benson asked if there were any questions before moving to the BlackRock presentation. Discussion ensued.

BLACKROCK PRESENTATION

Mr. Morgan started by thanking OTTA for inviting BlackRock to jointly present to Morningstar. BlackRock believes that these collaborative efforts have helped improve their ratings. Morningstar tends to move slowly in changing any rankings so BlackRock is very pleased to be awarded a bronze rating as it shows that it is a healthy plan.

Mr. Park added that the recent changes implemented by the approval of the OTTA Investment Board of changing the glide path structure and reducing the program fees, along with the doubled state of Ohio income tax deduction, keeps the BlackRock CollegeAdvantage Advisor 529 Plan well respected in the industry.

As the discussion was on the Morningstar ranking, Mr. Charlie Stolz spoke next and highlighted the information shared with the Morningstar committee. Mr. Stolz then spoke of the positive updates made to the BlackRock CollegeAdvantage Advisor 529 Plan, which provides clients a more robust 529 offering at a lower cost.

Ms. Vidya Gunasekaran then gave an overview on Global Tactical Asset Allocation (GTAA), an integrated approach of data intensive information shared among teams to invest across global markets for a short to medium-term time horizon to focus on top-down exposures.

Ms. Gunasekaran provided additional details on inner GTAA workings. The GTAA team, through research, data analysis and quantitative tools, develop insights around three factors of global economies – growth, inflation, and policy. With these insights, the team breaks down the macro themes and then develops the evaluation of the pricing of these themes. Once GTAA selects the appropriate investment opportunities gleaned from this process, the information is giving to specialist BlackRock active managers who invest in these growth opportunities before the rest of the investment industry discovers it.

Discussion ensued after this part of the BlackRock presentation.

Next, Mr. Tarun Garg, Head of BlackRock 529, spoke on rising U.S. wealth management trends and their effect on 529 college savings plans. BlackRock is strategizing how to adapt to these current movements. BlackRock's mission is help American save more money for higher education.

In 2015, the wealth management industry consists of \$26.1 trillion assets under management, of which financial advisors arbitrate \$22 trillion. There are more than 300,000 financial advisors in America. Even as BlackRock is the largest investment firm worldwide, there are too many firms - over 12,000 - to have relationships with all of them. Therefore, BlackRock is focusing on creating strong relationships with the four top clearing firms.

Mr. Garg continued that the entire growth in the financial advisor intermediate wealth management industry is concentrated in fee-based advisory platforms, which has a different fiduciary standing for clients. BlackRock is predicting by 2020, that \$8 trillion will be invested with brokers but \$19 trillion will be invested with advisors. The \$8 trillion figure is the legacy 529 target market so BlackRock wants to move forward on the fee-based advisory platforms as that is where they are seeing more potential clients.

Additionally, Mr. Garg explained that mutual funds and EFTs are becoming more popular as low-fee products and more funds are flowing into these investment options. In order to better compete for these assets, BlackRock has reduced their fees, going head-to-head with Vanguard.

Another trend that BlackRock sees is the creation of omnibus relationships between businesses. With omnibus, there is a large reduction in paperwork for both the client and advisor, making the investment process smoother for all parties. BlackRock is taking this omnibus approach to create less paperwork for their clients by working with Morgan Stanley, Merrill Lynch, Edward Jones, and hopefully soon, Fidelity.

Lastly, Mr. Garg shared that Environmental Social Governance (ESG) products are increasing in popularity, especially for all the positive press these products are receiving. ESGs make it possible to screen certain products – for example, such as companies that sell alcohol, tobacco, guns, adult entertainment – from client's portfolios.

Due to these trends, BlackRock has realigned their sales and marketing campaigns to focus on increasing their omnibus relationships with Edward Jones and Morgan Stanley. More than 54 percent of Edward Jones advisors (around 9,000) work in states whose 529 college savings programs are tax neutral, which gives any 529 program a level playing field. By adding Ohio to the mix, BlackRock will focus on these 23 states to increase participation in BlackRock CollegeAdvantage Advisor 529 Plan. Morgan Stanley has a small band of 529-focused advisors so BlackRock set a three-week targeted sales campaign concentrating on them. As the wealth management trends show, advisors and clients prefer "set-it-and-forget-it" portfolios, with 65 percent of 529 industry assets invested target date and target risk funds. In order to keep increasing the use of BlackRock 529 target dates fund, which is a blend of active and passive management, BlackRock are now the most price competitive on the Morgan Stanley and Edward Jones omnibus platforms.

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

MARKETING UPDATE

Mr. Gibbons began by stating that Ohio's 529 Plan continues to grow both in Ohio and across the nation. For the past few years, OTTA's agency goals were to (1) increase plan enrollments by 5 percent annually, and (2) increase contributions by 5 percent annually. As a result of past success, the new OTTA agency goals beginning in FY19 are (1) increase plan enrollments by 10 percent annually, and (2) increasing contributions by 10 percent annually. Mr. Gibbons noted that in the Direct Plan for the first quarter of FY19 enrollments were up over 13 percent and contributions were up 19 percent compared to the same quarter in FY18.

Mr. Gibbons then showed two of the latest marketing videos. One was of Seth and Beth, who filmed a testimonial video in 2013 for OTTA. Their new video is titled: "[How do you save for college when a family of three becomes a family of four?](#)" The other video is the new :30 spot for the [2018 Holiday Campaign](#) .

Mr. Benson asked if there were any comments or questions. There was none.

NEW BUSINESS

Mr. Benson asked if there was any new business to discuss. Mr. Kosanovic made a request that the previous meeting's minutes would be ready earlier for the Investment Board's review. It was confirmed that the minutes from this meeting would be available sooner.

PUBLIC PARTICIPATION

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


ADJOURN

Chairperson Benson called for a vote to adjourn the meeting. Mr. Kosanovic made a motion to adjourn. The motion was seconded by Rep. Rogers. A voice vote was taken. The meeting was adjourned at 12:28 p.m. The next meeting of the Ohio Tuition Trust Authority Investment Board is Thursday, Feb. 14, 2019.

Signed by:

Print name: _____

Date: _____


JAMES D. BENSON
2/14/19