



Minutes of the Ohio Tuition Trust Authority Investment Board Regular Meeting

OTTA Investment Board Meeting – Thursday, May 17, 2018
77 S. High Street, 31st Floor, West B/C, Columbus, Ohio 43215

CALL TO ORDER: 10:03 a.m.

Ms. Rebecca Schell conducted a roll call and announced that a quorum was present.

BOARD MEMBERS PRESENT:

Executive Investment Board Members: Ann Womer Benjamin, James Benson, William Elliott, Jack Green, Matthew Kirby, David Kosanovic and Charles See

Legislative Investment Board Members: 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; Rebecca Schell, Board Secretary; and Mark Smith, OH-Tech

Others present: David Lindberg, Wilshire; Craig Svendsen, NEPC; Michelle Chavanne, Legal Counsel, Ohio Department of Higher Education; 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.

OTTA INVESTMENT BOARD PORTAL

Shreekanth Chutkay reviewed updates to the OTTA Investment Board portal including the addition of resource documents to support the goals and work of the board. Mr. Chutkay also reviewed the features and functionality of the portal.

APPROVAL OF MINUTES

Senator Sandra Williams asked for any questions or comments on the OTTA Investment Board minutes of the February 15, 2018, regular board meeting. There were none. Senator Williams asked for a vote to approve the minutes. Rep. Rogers made a motion to approve. The motion was seconded by Mr. Benson. A voice vote was taken. The motion was approved.

EXECUTIVE DIRECTOR UPDATE

Executive Director Tim Gorrell welcomed those in attendance and introduced three new board members: William Elliott, Jack Green and Matthew Kirby (*biographical information can be found at collegeadvantge.com*). Mr. Gorrell noted that there are four voting items on the meeting agenda.

Trisha Good began discussion on the voting items by stating that the FY18-03 vote is to approve (1) the tuition inflation assumption for fall 2018 at the maximum amount authorized by law and thereafter at 5.5 percent, and (2) an investment return assumption for fall 2018 and thereafter at 3.5 percent. Ms. Good then explained that the FY18-04 and FY18-05 votes are to adopt the revised Direct Plan Investment Policy and the revised Advisor Plan Policy respectively. The investment policies now reflect the recent changes in the Glidepath of the Age-Based Portfolios in both the Direct and Advisor Plans.

Senator Williams asked if there were any comments or questions. Discussion ensued.

In response to an inquiry regarding the difference, if any, between the role of the board as “Fiduciary” for the Direct Plan and the role of the board as “Trustee” for the Advisor Plan, Ms. Good responded that OTTA is the program manager for the Direct Plan and Blackrock is the program manager for the Advisor Plan. Both terms refer to similar responsibilities of ensuring that those who manage OTTA investments act in the best interest of both beneficiaries and account owners.

Senator Williams asked for a vote to approve FY18-03 Guaranteed Savings Plan Actuarial Valuation Assumptions. Mr. Kosanovic made a motion to approve. The motion was seconded by Ms. Womer Benjamin. A voice vote was taken. The motion was approved.

Senator Williams asked for a vote to approve FY18-04 Direct Plan Investment Policy. Mr. Benson made a motion to approve. The motion was seconded by Mr. Kirby. A voice vote was taken. The motion was approved.

Senator Williams asked for a vote to approve FY18-05 Advisor Plan Investment Policy. Rep. Rogers made a motion to approve. The motion was seconded by Mr. Benson. A voice vote was taken. The motion was approved.

Mr. Gorrell introduced the next agenda voting item FY18-06 “Variable Fund Revenue Forecast & Cash Reserve Policy.” He stated that revenue earned from (1) basis points paid by OTTA 529 Plan account owners (Direct and Advisor), and (2) revenue received from revenue sharing agreements with Blackrock and Fifth Third has accrued over time into a cash reserve that continues to grow. He noted that the cash reserve was discussed at OTTA’s annual meeting with Morningstar and there has been concern expressed on a national level that some states may apply their 529 reserves to support other government agencies. OTTA has developed a proposal to reduce OTTA’s cash reserve and recommends that the board adopt a “Cash Reserve Policy” that allows the agency to manage cash reserves at an appropriate level.

Trisha Good shared that OTTA’s cash reserve as of March 31, 2018, is \$34 million. OTTA has designed a revenue forecasting tool that can forecast future revenue and cash positions based on multiple assumptions including but not limited to contributions, distributions and investment returns. The forecasts were “stress-tested” for three different investment markets to the year 2023; Positive, Flat and Negative.

Ms. Good stated that OTTA is recommending a customer-based fee reduction for the Direct and Advisor Plans from the current two (2) basis points to zero (0) basis points to manage the cash reserve amount. OTTA also recommends that an appropriate cash balance to maintain is two-year's worth of total Variable Savings Plan (Direct and Advisor) expenses. OTTA will review the revenue and cash forecast model annually to determine if any changes are necessary to (1) the assumptions in the model, and (2) expenses and/or revenue to maintain sufficient cash balances for the Variable Savings Plans.

Senator Williams asked if there were any comments or questions. Discussion ensued.

In response to an inquiry about options to reduce fees, Mr. Gorrell stated that OTTA recommends reducing customer fees in both the Direct and Advisor Plans. The current contract with Blackrock, which administers the Advisor Plan ends in 2021.

In response to the question of whether OTTA considered reducing the basis points to one (1) instead of zero (0). Ms. Good responded that OTTA ran scenarios for reducing fees to both one and zero. A concern was raised that it may be difficult to increase fees after a reduction in fees. A two (2) basis points reduction is recommended in each plan because the revenue forecast model shows that the two (2) basis points reduction most effectively reduces the cash reserves balances to an appropriate amount.

In response to a question of whether a two-year cash reserve is an industry standard, Ms. Good answered that to her knowledge there is no cash reserve "industry standard." Variables in circumstances would determine an adequate reserve. OTTA calculations indicate that a two-year reserve would allow for reaction time should conditions warrant a change in direction. The board requested more information related to the appropriate amount of cash reserve needed.

In response to a question of whether the Blackrock contract would be extended beyond 2021, Mr. Gorrell noted that Blackrock has been a very good partner and that full consideration will be given to the decision of extending the Blackrock contract beyond 2021.

Senator Williams recommended that a vote on FY18-06 "Variable Fund Revenue Forecast & Cash Reserve Policy" be postponed and a revised motion be made.

Ann Womer Benjamin made a motion to authorize OTTA to open discussion with Blackrock to implement an equal reduction of basis points by both Blackrock and OTTA to benefit account owners through an amendment to the revenue sharing portion of Blackrock's current contract. The motion was seconded by Senator Kunze. A voice vote was taken. The motion was approved.

Mr. Gorrell introduced the next agenda item "Discussion of Board Responsibilities and Expectations." He reviewed the OTTA Vision, Mission and Values and asked for input from board members on the current structure and frequency of board meetings.

Senator Williams asked if there were any comments or questions. Discussion ensued.

A comment was made that quarterly meetings are sufficient and the inclusion of partner updates on the agenda is helpful.

In response to an inquiry regarding whether there are board responsibilities between regular meetings, Mr. Gorrell responded that recently that has been minimal but is open for discussion.

If information is available between meetings it can be posted on the board portal for access and review. Michelle Chavanne, ODHE legal counsel stated that Ohio's open meetings law requires that board discussion be public. She added that three types of meetings can be assembled: (1) general, (2) special, and (3) emergency. An executive session can also be called for specific purposes as outlined in Ohio Revised Code (e.g., compensation and litigation matters).

Mr. Gorrell stated that the position of Chair of the Executive Committee is currently unfilled.

Senator Williams asked for a vote to nominate and approve a Chair of the Executive Committee. Ms. Womer Benjamin made a motion to appoint Mr. Jim Benson as Chair of the Executive Committee. The motion was seconded by David Kosanovic. A voice vote was taken. The motion was approved.

GUARANTEED SAVINGS PLAN INVESTMENT

Mr. Craig Svendsen of NEPC gave a brief update on the Guaranteed Savings Plan (GSP). The plan assets are at \$275.6 million as of March 31, 2018. Due to market conditions, including interest rates and proposed tariffs, the plan returned 0.0 percent during the quarter and 6.1 percent over the last one-year period. Mr. Svendsen shared that the "immunization strategy" discussed at the November 2017 board meeting has been implemented resulting in much less equity exposure. The immunization strategy invests in Treasuries only with maturity dates that closely match the expected tuition payments of the GSF. He added that PIMCO has been placed on "Watch" while GMO's status has been upgraded to "No Action." He added that there may be additional de-risking strategies in the future and that the GSF fund, in general, is very healthy.

Senator Williams asked if there were any comments or questions. There were none.

VARIABLE SAVINGS PLAN INVESTMENT UPDATE

Direct Plan Performance

Mr. David Lindberg of Wilshire provided an update on the Direct Plan performance. For the quarter, 65 percent of age-based options ranked in the top half of their respective 529 peer universes; 72 percent of risk-based and individual fund options ranked in the top half of their respective peer universes; and 68 percent of total funds ranked in the top half of their respective peer universes. Mr. Lindberg noted that 2017 evidenced the lowest volatility in the market in four years. The Direct Plan had a strong quarter and is on target for year-to-date gains.

Mr. Lindberg stated that over a five year period 63 percent of Direct Plan age-based options ranked in the top half of their respective 529 peer universes while 80 percent of risk-based and individual fund options ranked in the top half of their respective peer universes. Mr. Lindberg added that no funds in the Direct Plan are on the "Watch" list.

Senator Williams asked if there were any comments or questions. Discussion ensued.

In response to the question of whether some funds are underperforming because of low equity exposure or stock selection, Mr. Lindberg answered "stock selection."

Fifth Third Rate Update

The board was informed that Fifth Third Bank’s CD terms remain very competitive.

BlackRock Advisor Plan

Mr. Lindberg informed the board that for the quarter, 100 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 64 percent of all funds ranked in the top half of their respective peer universes. Over the past five years, 73 percent of risk-based and individual fund options ranked in the top half of their respective peer universes and 73 percent of all funds ranked in the top half of their respective peer universes. He noted several funds were underperforming due to stock selection. Mr. Lindberg added that no funds in the Advisor Plan are on the “Watch” list.

MARKETING UPDATE

Mr. Ben Gibbons stated that one of the goals of OTTA is to raise “brand” awareness of Ohio’s 529 plan. He shared that OTTA has recently unveiled a re-freshed organizational logo that places increased emphasis on “529.” Additional goals of the marketing team are (1) increase plan enrollments by 5% annually, and (2) increase contributions by 5% annually. Mr. Gibbons noted that in the Direct Plan for the third quarter of FY18 enrollments were up over 19 percent and contributions were up 14 percent compared to the same quarter in FY17.

Mr. Gibbons continued that while Ohio’s 529 Plan is one of the largest and best regarded plans in the country, the goal is always to improve. Currently, Ohio’s 529 Direct Plan holds a “silver” rating from Morningstar while the Advisor Plan, administered by Blackrock holds a “bronze” rating. In addition, SavingforCollege.com released its quarter rating and Ohio’s 529 Direct Plan was rated #5 in 3-Year Performance and #1 in 5-Year performance. Mr. Gibbons stated that OTTA begins its Graduation Campaign on May 21, 2018 and will also have various outreach activities related to “529 Day” on May 29, 2018.

Senator Williams asked if there were any comments or questions. There were none.

NEW BUSINESS

Senator Williams asked if there was any new business to discuss. There was none.

PUBLIC PARTICIPATION

Senator Williams asked if there was any public participation. There was none.

ADJOURN

Senator Williams asked for a vote to adjourn the meeting. Senator Kunze made a motion to adjourn. The motion was seconded by Mr. Kosanovic. Without objection, the meeting was adjourned at 12:24 p.m. The next meeting of the Ohio Tuition Trust Authority Investment Board is August 16, 2018.

Signed by:

Print name: Michael Duffey

Date: 8-16-18