

**Minutes of the Ohio Tuition Trust Authority Investment Board Meeting**

OTTA Investment Board Meeting – Thursday, November 16, 2017  
77 S. High Street, 19<sup>th</sup> Floor, Conference Room 1948, Columbus, Ohio 43215

**CALL TO ORDER:** 10:01 a.m.

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

**BOARD MEMBERS PRESENT:**

**Executive Investment Board Members:** James Benson, David Kosanovic and Charles See

**Legislative Investment Board Members:** Representative Mike 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; Kim Fisher, Human Resources Specialist and Rebecca Schell, Administrative Assistant

**Others present:** Craig Svendsen, NEPC; David Lindberg, Wilshire; Lisa Critser, Office of 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**

Representative Mike Duffey asked for any questions or comments on the Investment Board minutes of the August 17, 2017, meeting. There were none. Rep. Duffey asked for a vote to approve the minutes. Mr. James Benson made a motion to approve. The motion was seconded by Mr. Charles See. A voice vote was taken. The motion was approved.

**EXECUTIVE DIRECTOR UPDATE**

Executive Director Tim Gorrell began with a report on the September 7, 2017, Morningstar meeting held in Chicago. At the meeting, representatives from OTTA, Blackrock, Wilshire and Morningstar discussed updates made to Ohio's 529 plan including steps taken to smooth out the plan's glide paths coupled with the recent increase in the state income tax deduction from \$2,000 to \$4,000.

Mr. Gorrell explained that Morningstar annually reviews and rates the nation's 529 college savings plans. In Morningstar's recently released 2017 ratings, Ohio's CollegeAdvantage Direct 529 Plan retained its silver rating. Morningstar upgraded the CollegeAdvantage Advisor 529 Plan to a bronze rating (from neutral in 2016). This makes Ohio one of eight states that

have both a Direct Plan and an Advisor 529 Plan placed in “best-in-class” investment options by Morningstar.

Mr. Gorrell shared that OTTA held its due diligence meeting with Fifth Third Bank in early October 2017. Meeting discussion included the review of a recent report issued by SavingforCollege.com which compared rates (both savings and CDs) in 24 529 plans across the country. Based on the report, Fifth Third increased OTTA’s rates in the CD terms as follows (24-35 month CDs increased by 45 bps; 36-47 month CDs increased by 30 bps and 48-59 month CDs increased by 5 bps).

Rep. Duffey asked if there were any comments or questions. Discussion ensued.

In response to an inquiry regarding feedback from Morningstar about Ohio’s 529 plan ratings, Mr. Gorrell responded that it is perplexing why Ohio’s Direct 529 Plan did not receive a gold rating based on the positive changes made to the plan this past year. Both Vanguard and Wilshire conducted a “deep dive” based on 2016 feedback from Morningstar and there was optimism that the plan would be rated gold in 2017. Mr. Gorrell stated that OTTA staff will continue to focus on the goal to achieve a gold rating.

## **GUARANTEED SAVINGS PLAN INVESTMENT UPDATE AND VOTE**

Mr. Craig Svendsen of NEPC reported on the various investments of the Guaranteed Savings Plan (GSP). The plan assets are at \$293 million as of September 30, 2017. The plan returned 2.1% during the quarter and 7.2% over the last one-year period.

Mr. Svendsen stated that because the GSP is well-funded at 126%, NEPC recommends a move to de-risk the plan. Mr. Svendsen explained that under the current structure fixed income proceeds are immediately reinvested, thereby the fund experiences losses when interest rates rise. Under an “immunization strategy,” the manager has fixed income securities mature at the same time as cash is required to make tuition payments, eliminating the need to sell securities. The immunization strategy would only invest in Treasuries that have maturities that closely match the expected tuition payments of the GSF.

Two steps are required: The first step is to identify a manager skilled in managing Treasury portfolios. Three proposals to serve as the fund manager were considered based on their strong capabilities in managing short to intermediate duration investment portfolios: BlackRock, IR+M, and Loomis. NEPC and staff recommend that Loomis be hired principally due to competitive fees and Treasury experience.

The second step is to determine the amount to allocate to the fund manager (directionally speaking, the more GSF assets invested in this strategy, the greater the impact on the GSF’s expected return). NEPC and staff recommend moving to the mix that reduces GAA by 25%. Additionally NEPC supports the recommendation to move the actuarial assumed expected return to 3.5%.

Rep. Duffey asked if there were any comments or questions. Discussion ensued.

In response to an inquiry regarding what impact would occur to OTTA’s funded position if all 14 public institutions of higher education raised tuition 6%, Ms. Good said that OTTA’s funded position would be reduced to approximately \$1.8 million.

Rep. Duffey called for a vote to approve Resolution FY18-01 Guaranteed Savings Plan Asset Allocation. Mr. Charles See made a motion to approve. Mr. Benson seconded. A voice vote was taken. The motion was approved.

Rep. Duffey called for a vote to approve an amendment to Resolution FY18-01 Guaranteed Savings Plan Asset Allocation that adds the following language, “3) and approve the investment return assumption of 3.5%.” Mr. David Kosonovic made a motion to approve. Rep. John Rogers seconded. A voice vote was taken. The motion was approved.

## **VARIABLE SAVINGS PLAN UPDATE**

### **Direct Plan Performance**

Mr. Lindberg of Wilshire provided an update on the Direct Plan performance. For the quarter, 45% of age-based options ranked in the top half of their respective peer universes; 50% of risk-based and individual fund options ranked in the top half of their respective peer universes; and 47% of total funds ranked in the top half of their respective peer universes.

Mr. Lindberg continued with a review of performance comparison returns (ending September 2017). After mentioning several funds that posted gains in “Excess of Benchmark,” he noted that the weakest fund, Vanguard Strategic Equity Option, posted negative numbers for the first three quarters of 2017 but rebounded with a positive 0.79 for the one year mark.

Mr. Lindberg concluded by stating that the “Status” table of Direct Sold plans shows “No Action Required.”

Rep. Duffey asked if there were any comments or questions. Discussion ensued.

In response to a question about why the Vanguard Strategic Equity Option fund showed growth for the one year mark given that the first three quarters were weak, Mr. Lindberg responded that the fund had one very strong quarter. Mr. Lindberg added that there is not a major concern currently with this fund, however, advisors will continue to monitor the fund to determine if a change in the designated status of the fund needs to occur.

### **Fifth Third Rate Update**

Ohio's 529 plan savings rates remained unchanged during this quarter. Effective August 18, 2017, Fifth Third increased the rate of CD terms of 6-11 and 12-23 months, from 0.30% and 0.50% respectively, to 1.00% for both ranges. In addition, on October 27, 2017, rates increased for the following CD terms:

24-35 months (1.00% to 1.45%)

36-47 months (1.25% to 1.55%)

48-59 months (1.50% to 1.55%)

### **BlackRock Advisor Plan Performance**

Mr. Lindberg provided an update on the Advisor Plan. For the quarter, 53% of age-based options ranked in the top half of their respective peer universes; 45% of risk-based and individual fund options ranked in the top half of their respective peer universes; and 49% of total funds ranked in the top half of their respective peer universes.

Mr. Lindberg provided an overview of performance comparison returns noting that the Blackrock Global Allocation Option fund, which is actively managed has struggled while the Blackrock Equity Dividend Option fund and Blackrock Advisor Large Cap Core Option funds have done well.

Mr. Lindberg concluded by stating that the "Status" table of Advisor Sold plans shows "No Action Required."

Rep. Duffey asked if there were any comments or questions. Discussion ensued.

In response to a question about whether Blackrock's "peer universe" includes both Advisor and Direct funds, Mr. Lindberg stated that he will verify the types funds included in the "peer universe" and report out at the February 2018 Investment Board meeting.

Responding to an inquiry regarding what actions are taken to address an underperforming fund, Mr. Lindberg explained that a team researches six separate components including the entire platform of relevant sectors.

#### **LEGAL AND LEGISLATIVE UPDATE: OAC RULES REVIEW AND VOTE**

Mr. Gorrell informed the Investment Board that OTTA staff reviewed the rules contained in Ohio Administrative Code that directly impact the investment of funds. The result was that the rules are consistent, however the insertion of the word "investment" into ORC 3334-1-03 needs to occur at this time.

Rep. Duffey asked if there were any comments or questions. Discussion ensued.

In response to a question about OTTA Investment Board committees, Lisa Critser of the Ohio Attorney General's Office responded that an OTTA Investment Board Executive Committee meets at the request of the full board, however that has not been a common occurrence. She is not aware of additional committees.

Rep. Duffey asked for a vote to approve Resolution FY18-02, Rule ORC 3334-1-03 as presented. Mr. Benson made a motion to approve. The motion was seconded by David Kosonovic. A voice vote was taken. The motion was approved.

#### **QUARTERLY FINANCIAL UPDATE**

Ms. Good provided the OTTA quarterly financial update. She shared that Ohio is the nation's sixth largest sponsor of 529 plans, with AUM as of September 30, 2017, at \$10.7 billion. This does not include the \$210 million in customer value to the Guaranteed Plan, which brings overall customer assets to \$10.88 billion. Overall, the AUM specific to Ohio's program increased 2.2% from the previous quarter. Ohio's year-over-year AUM change was 12.1%.

Ms. Good announced that Ohio is the nation's seventh largest sponsor of a Direct Plan, with an AUM as of September 30, 2017 of \$5.48 billion. Ohio remains the nation's fourth largest sponsor of an Advisor Plan, with AUM as of September 30, 2017, at \$5.19 billion. Ms. Good noted that AUM is up in both plans due to strong market performance. She added that Net Flow Q3 2017 over Q3 2016 is down -0.7% in the direct plan and -2.7% in the advisor plan (attributable to heavy distribution).

Ms. Good presented the monthly contributions and distributions for the Direct and Advisor Plans. On a year-over-year basis, there was a 7.6% increase in contributions to the Direct Plan and a 2.0% increase in the Advisor Plan. Combining the Direct and Advisor Plans, the percentage change in contributions was 5.2% year-over-year.

On a year-over-year basis, there was a 13.5% increase in distributions from the Direct Plan and 6.7% increase in the Advisor Plan. Combining the Direct and Advisor Plans, the percentage change in distribution was 9.4% year-over-year.

Ms. Good proceeded to discuss the Guaranteed Plan. The market value of the Guaranteed Plan portfolio as of September 30, 2017, was \$293.1 million, which exceeds the tuition cash liability of the program of \$229.1 million. This represents a 139% funded status on a cash basis as of September 30, 2017.

Ms. Good stated that Schneider Downs recently completed an independent audit of OTTA resulting in an unqualified opinion on the financial statements and no instances of noncompliance on the Report of Internal Control over Financial Reporting and Compliance.

Rep. Duffey asked if there were any comments or questions. There were none.

## **MARKETING UPDATE**

Mr. Ben Gibbons noted that one of the goals of OTTA is to increase Direct Plan new enrollments and new contributions by 5% annually. For FY2017, Direct Plan new enrollments were up 11% and new contributions were up 8.4% compared to FY2016. For the first quarter of FY2018, following OTTA's Back-To-School campaign, new enrollments increased 18% and new contributions increased 8% compared to the first quarter of FY2017.

Heading into the end of the calendar year, historically the busiest time of year for new enrollments and new contributions, OTTA will implement its Holiday/End-of-Year advertising campaign from November 27 through December 27, 2017. The goal of the campaign is to generate new accounts and contributions before the deadline of 4:00 pm, December 29, 2017.

Prior to the Bears-Bengals football game on December 10, 2017, there will be an on-field presentation of a \$10,000 College Savings Award to the Grand Prize Winner of OTTA's annual sweepstakes with the Cincinnati Bengals. Also in December, OTTA's partnership with the Columbus Blue Jackets will resume, working toward a new sweepstakes similar to the Bengals, with a spring 2018 on-ice presentation to the Grand Prize winner. Mr. Gibbons also shared Facebook and Twitter statistics noting that Ohio's 529 Facebook page has the third largest following in the country, behind California and Virginia.

Rep. Duffey asked if there were any comments or questions. Discussion ensued.

In response to a question about proposed tax changes and national lobbying efforts representing 529 interests, Mr. Gorrell stated that two national organizations monitor legislative activity: (1) College Savings Foundation, and (2) the College Savings Plan Network. He stated that he is not aware of any proposals to reduce or eliminate 529 tax incentives.

**ELECTRONIC BOARD DOCUMENTS DEMO**

Mr. Shreekanth Chutney presented the newly-developed electronic OTTA Investment Board portal. The portal was designed to efficiently distribute, manage and archive board documents. The portal includes board member biographies, board meeting agendas and materials and other board resources.

Rep. Duffey stated that he prefers full public transparency of the Investment Board portal.

**NEW BUSINESS**

Rep. Duffey asked if there was any new business to discuss. There was none.

**PUBLIC PARTICIPATION**

Rep. Duffey asked if there was any public participation. There was none.

**ADJOURN**

Mr. Duffey asked for a vote to adjourn the meeting. Rep. Duffey made a motion to adjourn. The motion was seconded by Mr. Benson. Without objection, the meeting was adjourned at 12:28 p.m. The next meeting of the Ohio Tuition Trust Authority Investment Board is February 15, 2018.

Signed by: Sandra Williams

Print name: SANDRA WILLIAMS

Date: 2/15/18