

Minutes of the Ohio Tuition Trust Authority Investment Board Meeting

OTTA Investment Board Meeting – Thursday, February 15, 2018
77 S. High Street, 31st Floor, West B/C, Columbus, Ohio 43215

CALL TO ORDER: 10:00 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, Eric Braun, 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; Victor Mascari, Database Administrator; Ben Gibbons, Director of Marketing; Kim Fisher, Human Resources Specialist; Dave Kemp, Director of Customer Service and Operations; Judy Cunningham, Community and Public Relations Manager; and Rebecca Schell, Executive Assistant

Others present: David Lindberg and Stephen DiGirolamo, Wilshire; Michelle Chavanne, Ohio Department of Higher Education, Lisa Critser, Office of the Ohio Attorney General, Daivon Barrow, Ohio Senate staffer Craig Svendsen and Carrie Bescoe, NEPC (via conference line).

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

Senator Sandra Williams asked for any questions or comments on the OTTA Investment Board minutes of the November 16, 2017, meeting. There were none. Senator Williams asked for a vote to approve the minutes. Rep. John Rogers made a motion to approve. The motion was seconded by Mr. David Kosanovic. A voice vote was taken. The motion was approved.

EXECUTIVE DIRECTOR UPDATE

Executive Director Tim Gorrell began with an update on OTTA Investment Board membership. He stated that while Eric Braun's term expired at the end of January 2018, he has expressed a desire to continue serving on the board. If Mr. Braun is re-appointed as a board member, the board's Executive Committee can then discuss the continuation of Mr. Braun as committee chair. Mr. Gorrell noted ORC 3334.03 (B) (1) (c) provides for board leadership.

Mr. Gorrell shared that Ohio's 529 Plan assets under management (AUM) currently totals \$11.3 billion which reflects the strong partnerships built between OTTA and Wilshire, Vanguard, DFA, Fifth Third and BlackRock. In January, 2018 Fifth Third increased several CD term rates in January (25 bps for 12-23 months, 10 bps for 24-47 months and 20 bps for 48-59 months).

Mr. Gorrell then informed the board that each member must file a 2017 Financial Disclosure Statement with the Ohio Ethics Commission by **May 15, 2018**. OTTA will cover the filing fee. Each board member is also required to complete an approved Ohio Ethics Commission Ethics Training in calendar year 2018. In-house counsel Michelle Chavanne will send information to board members providing additional details.

Trisha Good, CFI/CIO, presented information on the variable savings revenue forecast and cash reserve policy. Annual revenue earned specifically from the basis points paid from the OTTA variable customer (direct and advisor) and revenue received from the revenue sharing agreements with variable investment managers is accrued into cash reserves. Expenses specific to the Variable Savings Plan are paid from the cash reserves. Currently, excess cash remains in the cash reserves without a plan to manage cash to an appropriate amount.

Ms. Good shared several revenue and cash balance forecasts with board members. The forecasts are based on several assumptions, including but not limited to contributions, distributions and investment returns. The forecasts were "stress-tested" for three different investment environments: positive, flat and negative. In addition, scenarios for different revenue fee structures were examined to determine the impact on current year revenues and cash balances. OTTA is recommending the board adopt a policy that provides guidance on (1) the appropriate cash balances to maintain, and (2) how to manage resources to that cash balance.

OTTA is also recommending a customer based fee reduction for the Direct and Advisor Plans as a tool to manage the cash reserves. OTTA currently charges an "OTTA Fee" of 0.02% on all mutual fund investment options in both the Direct and Advisor Plans. There are no OTTA fees on the Fifth Third banking options. The last time the OTTA fee was changed was 2015.

Note: Additional information is posted on the OTTA Investment Board Portal under the heading, "Documents."

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

In response to an inquiry regarding OTTA's primary source of revenue, Ms. Good responded that the majority of OTTA revenue comes from the Advisor Plan.

In response to a comment regarding the two-year cash reserve balance, Ms. Good noted that OTTA will examine the reserve balance annually and adjust if needed.

An inquiry was made as to how many states charge 0 bps. Ms. Good said that a variety of fees are charged across the country. OTTA will provide further information on this when available.

VARIABLE SAVINGS PLAN INVESTMENT UPDATE (Wilshire)

Overview of Wilshire Investment Process

Mr. Stephen DiGirolamo explained the process Wilshire utilizes to evaluate investment managers which includes the following components: (1) organization, (2) information, (3) forecasting, (4) portfolio construction, (5) implementation, and (6) attribution. Managers are scored on these components and a written evaluation is added to that score. Managers receive a final grade of A, B, C, D or F.

Direct Plan Performance

Mr. DiGirolamo 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; 61% of risk-based and individual fund options ranked in the top half of their respective peer universes; and 53% of total funds ranked in the top half of their respective peer universes. Mr. DiGirolamo noted that each "universe" contains approximately 120 funds.

Mr. DiGirolamo continued with a review of performance comparison returns (ending December 2017). He noted that fund rankings in red performed in the lower 50th percentile of their peer universe and rankings in green reflected investments in the upper 50% percentile of their peer universe. Mr. DiGirolamo added that no funds in the Direct Plan were on the watch list.

Mr. Lindberg then reviewed the absolute performance and performance relative to the benchmarks of several of the options within the Direct Plan.

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

In response to a question regarding what action is taken when a fund underperforms, Mr. DiGirolamo responded that Wilshire works in tandem with Vanguard to build asset allocations and continuously monitor fund performance.

In follow up, a board member asked for an example when Wilshire would alert the investment board that there is concern with a specific fund. Mr. Lindberg answered that Wilshire leaders would review the fund with Vanguard and share any warranted concern with Executive Director Tim Gorrell and CFO/CIO Trisha Good.

In response to the question of who determines a performance benchmark, Mr. Lindberg stated that Vanguard (or DFA) determines a benchmark, then Wilshire tests the benchmark and reviews it with fund managers to ensure it is appropriate and rigorous.

Fifth Third Rate Update

Fifth Third Bank has increased several CD Term rates again. CD Terms between 12 and 59 months increased on January 11, 2018 (25 bps for 12-23 months, 10 bps for 24-47 months and 20 bps for 48-59 months).

BlackRock Advisor Plan

Mr. DiGirolamo informed the board that due to the implementation of glide path changes for the Advisor Plan beginning December 2, 2017, there is not performance specific to the Age-Based Option for the quarter or other time periods. Performance for other options are included in the Wilshire report and there are no issues to report to the Board.

Guaranteed Savings Plan Investment

Craig Svendsen of NEPC reported on the various investments of the Guaranteed Savings Plan (GSP). The plan assets are at \$285.3 million as of December 31, 2017. The plan returned 1.9% during the quarter and 9.8% over the last one-year period.

Mr. Svendsen shared that the “immunization strategy” discussed at the November 2017 board meeting is being implemented to reduce risk. The immunization strategy invests in Treasuries with maturity dates that closely match the expected tuition payments of the GSF. Wilshire will review the management of these funds by Loomis Sayles in an ongoing manner.

Mr. Svendsen informed the board that there have been several manager changes: State Street Global Advisors had personnel transition but these have no impact on OTTA portfolios; Western Asset Management had personnel changes as well but Mr. Svendsen stated this company no longer manages investments for OTTA.

Mr. Svendsen provided the board with specific manager performance. The expected return of the plan’s current asset allocation over 5-7 years is 3.9%, which supports the investment return assumption of 3.5% set by the board in November 2017.

Mr. Svendsen concluded that the implementation of the immunization strategy was well timed as the market performed well in November and December 2017 and reduced in January and February of 2018. This immunization strategy move in January 2018 managed by Loomis will reduce the fund’s volatility. In general the GSF fund is very healthy.

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

In response to an inquiry of how much exposure the Global Asset allocation has in the international market, Mr. Svendsen stated that the GMO Global Balanced fund has 30% non-US investments.

LEGAL AND LEGISLATIVE UPDATE

Mr. Gorrell shared that federal tax reform legislation was signed into law the end of 2017. This legislation adds tuition at K-12 schools to “other higher education expenses,” starting in 2018. These new provisions specify:

1. Account owners can choose to use 529 assets to pay qualified K-12 tuition up to \$10,000 per student, per year, for enrollment at public, private, or religious elementary or secondary school. If there are multiple accounts for a student, the combined 529 distributions to pay for their K- 12 tuition is limited to \$10,000 per year.

As with any withdrawal, the account owner is responsible for monitoring distribution limits and substantiating authorized uses of distributions to be in compliance with federal 529 regulations.

2. Account owners can make a qualified distribution of 529 assets into an ABLE account up to its annual contribution limit. For Ohioans, STABLE is Ohio's ABLE program for disability-related expenses.

Mr. Gorrell added that Ohio's legislature is working to align the federal legislative language with Ohio legislation. Ohio will continue acknowledge federal law until Ohio's state legislature completes any necessary changes to Ohio statute.

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 December 31, 2017, at \$11.1 billion. This does not include the \$214 million in customer value to the Guaranteed Plan, which brings overall customer assets to \$11.3 billion. Overall, the AUM specific to Ohio's program increased 3.9% from the previous quarter. Ohio's year-over-year AUM change was 14.5%.

Ms. Good announced that Ohio is the nation's seventh largest sponsor of a Direct Plan, with an AUM as of December 31, 2017 of \$5.76 billion. Ohio's Direct Plan increased by 5.0% during the quarter. Ohio's Direct Plan posted an 18.5% increase in AUM year-over-year.

Ohio remains the nation's fourth largest sponsor of an Advisor Plan, with AUM as of December 31, 2017, at \$5.33 billion. Total Advisor Plans' AUM increased by 3.4% during the quarter. Ohio's Advisor Plan increased by 2.7% during the quarter. Ohio's Advisor Plan's AUM increased year-over-year by 10.4%.

Ms. Good presented the monthly contributions and distributions for the Direct and Advisor Plans. On a year-over-year basis, there was a 9.1% increase in contributions to the Direct Plan and a 1.9% increase in the Advisor Plan. Combining the Direct and Advisor Plans, the percentage change in contributions was 6.2% year-over-year.

On a year-over-year basis, there was a 12.5% increase in distributions from the Direct Plan and 5.5% increase in the Advisor Plan. Combining the Direct and Advisor Plans, the percentage change in distribution was 8.3% year-over-year.

Ms. Good proceeded to discuss the Guaranteed Plan. On a year-over-year basis, there was a -15.1% decrease in distributions from the GSP. The GSP continues to be financially sound on an actuarial basis, 133% funded and on a cash basis, 145% funded. By continuing the de-risking policy, the fund is in a good position to reach the conclusion of the plan's life without requesting state funds. Overall, Ms. Good stated that OTTA continues to monitor its current expenses against the current revenue and cash reserves and has sufficient assets to cover expenses.

Senator Williams 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. In the Direct Plan for the second quarter of FY2018, new enrollments were up 19.6% and new contributions were up 10% compared to the same quarter in FY2017. Mr. Gibbons explained that while Ohio's 529 Plan is one of the largest and best regarded plans in the country, the goal is always to improve. He shared that OTTA had a very strong quarter to close 2017 due to the Holiday/End-of-Year advertising campaign from November 27 through December 27, 2017.

Also, as part of OTTA's partnership with the Columbus Blue Jackets for the 2017-2018 season a sweepstakes will be held from February 26 through March 25, with a spring 2018 on-ice presentation of \$10,000 to the Grand Prize contest winner. Mr. Gibbons also shared Facebook and Twitter statistics.

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

In response to a question about whether OTTA monitors "cause and effect" of social media viewing resulting in new account openings, Mr. Gibbons responded that "clicks" can be monitored up to the "Open an account page," at which point a firewall goes into effect for security purposes, and data from traffic to the page will be shared at the May meeting. OTTA also monitors "cookies" and works to match marketing strategies to public interest in various media.

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. David Kosanovic made a motion to adjourn. The motion was seconded by Rep. Rogers. Without objection, the meeting was adjourned at 12:40 p.m. The next meeting of the Ohio Tuition Trust Authority Investment Board is May 17, 2018.

Signed by: Sandra Williams

Print name: SANDRA WILLIAMS

Date: 5-17-18