

Minutes of the Ohio Tuition Trust Authority

Board Meeting – Thursday, August 17, 2017

77 S. High Street, 31st Floor, West B/C Conference Room, Columbus, Ohio 43215

CALL TO ORDER: 10:00 a.m.

Ms. Amy Lyle took roll and Chairman Eric Braun announced that a quorum was present.

BOARD MEMBERS PRESENT:

Executive Investment Board Members: Eric Braun, Ann Womer Benjamin, James Benson, Michelle Chavanne representing Chancellor John Carey, and David Kosanovic.

Legislative Investment Board Members: Representative Mike Duffey, 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; Judy Cunningham, PR Manager; Rebecca Schell, Administrative Assistant; and Amy Lyle, Communication Coordinator.

Others present: Craig Svendsen, NEPC; Mary Ryan, Vanguard; Scott Donaldson, Vanguard; Alan Perry, Milliman; Stephen DiGirolamo, Wilshire; David Lindberg, Wilshire; Lisa Valentine, Senior Legislative Aide for Senator Stephanie Kunze; and Mike McPhillips, 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

Mr. Eric Braun asked for any questions or comments on the full Investment Board minutes of the May 18, 2017 meeting. There were no questions or comments on the full Investment Board minutes and Mr. Braun asked for a motion to approve the minutes. Mr. David Kosanovic made a motion to approve. The motion was seconded by Senator Sandra Williams. The remaining Investment Board members voted affirmatively and the motion passed.

EXECUTIVE DIRECTOR UPDATE

OTTA Executive Director Tim Gorrell welcomed Investment Board members. Mr. Gorrell began by referring to a recent Columbus Dispatch article that highlighted the issue of student debt exceeding \$1.4 trillion. Mr. Gorrell stated that the Ohio 529 plan is an excellent investment option to address this issue. Mr. Gorrell added that OTTA staff

members have focused on a targeted marketing strategy that informs constituents of the value of investing in Ohio's 529 plans.

Mr. Gorrell noted that the Ohio legislature recently approved raising the state tax deduction for 529 investments, from \$2,000 to \$4,000. OTTA will heavily market this increased incentive beginning January 2018. This increase should heighten the appeal of Ohio's 529 plan.

Mr. Gorrell shared that he and OTTA CFO/CIO Trisha Good will meet with Morningstar representatives in Chicago on September 7, 2017. Ohio's 529 Direct plan currently holds a silver rating from Morningstar; however, he believes the recent steps taken to smooth out the plan's glide paths, coupled with the recent increase in the state income tax deduction raises his confidence that Ohio's Morningstar rating will improve to gold. Mr. Gorrell will provide an update on the Morningstar meeting at the November Investment Board meeting.

Chairman Braun asked if Morningstar provided feedback regarding gaps in Ohio's plan. Ms. Good responded that both Vanguard and Wilshire conducted a "deep dive" based on last year's feedback from Morningstar. There is optimism that Ohio's rating will be positively impacted by the actions taken to address the gaps noted. She added there are five "pillars" used to evaluate state programs with each pillar carrying a different weight of importance. Ms. Good concluded that Blackrock will also present their age-based glide path changes in the CollegeAdvantage Advisor 529 Plan at the September meeting with Morningstar. The Investment Board approved the BlackRock's Advisor Age-Based glide path changes at the May 18, 2017, meeting when it voted for the adoption of FY17-10.

Mr. Gorrell also shared that Vanguard, one of CollegeAdvantage investment partners, will be having a shareholder meeting November 15, 2017. It will be a proxy campaign for the election of trustees.

Next Mr. Gorrell proposed moving to digital format to access Investment Board meeting materials. He said that OTTA staff will present various options at the November 16, 2017, Investment Board meeting. Chairman Braun asked if there were any comments or questions on this proposal. Rep. Michael Duffey asked for a breakdown of the labor and equipment cost to move forward on the digital access proposal. Mr. James Benson stated that he believed an investment in technology to allow digital access would enable board members to have earlier access to board materials and could prove to be a sound investment over time. Senator Williams stated that since most Investment Board members are involved on several committees, she would prefer to continue receiving the Investment Board materials directly.

GUARANTEED SAVINGS PLAN INVESTMENT UPDATE

Mr. Craig Svendsen of NEPC reported on the various investment of the Guaranteed Savings Plan (GSP). The plan assets are at \$307.6 million. The plan returned 2.0% during the quarter and 8.1% over the last one year period. The Fiscal Year performance is 5.3%, which is ahead of the 4.5% expected return.

Mr. Svendsen reported \$26 million in cash was raised for the July-September 2017 payouts from the Guaranteed 529 Plan account owners. This increase temporarily pushed the cash allocation slightly above the upper limit of its cash asset allocation range, which is between 0-8%. This is a seasonal and expected increase as Guaranteed Plan account owners cash in units and credits to pay for their beneficiary's post-secondary education expenses.

Mr. Svendsen then shared the GSP is very well-funded. Due to this, Mr. Svendsen said that NEPC will provide a recommendation to further de-risk the plan at the Investment Board's November 16, 2017 meeting.

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

GUARANTEED SAVINGS PLAN ACTUARIAL VALUATION UPDATE AND VOTE

Mr. Alan Perry of Milliman Inc., the GSP actuary, presented the preliminary draft results of the actuarial valuation of the Ohio Tuition Trust Authority Guaranteed Savings Fund (GSF) as of June 30, 2017. He explained that when a tuition unit was purchased, the amount paid was credited to the Guaranteed Savings Fund and separated between the Tuition Trust Fund and the Reserve Fund. The Tuition Trust Fund may be used to make payments for (1) tuition to colleges or university, or (2) refunds. The Reserve Fund may be used to pay any obligation of the Authority, either administrative or tuition costs.

Mr. Perry reviewed the history of the GSP, which opened in 1989, and with new contributions and accounts suspended as of December 31, 2003, due to the inability to price for future inflation. Therefore, the youngest beneficiaries in the program should now be between 13-14 years old. Mr. Perry also shared that there are currently a large group of beneficiaries coming to college age so large withdrawals are being taken from the GSP. Therefore, Milliman recommends that CollegeAdvantage focus on finding the account owners of plans with beneficiaries who are 24 years and older who have not begun to redeem their units or credits. Mr. Benson asked if the account owners could designate a Guaranteed Plan to a sibling. Mr. Dave Kemp and Ms. Good responded that the account can be transferred once to a family member who is currently in college if the current beneficiary has reached the age of 19. Additionally, Mr. Kemp stated that OTTA staff are reaching out to account owners with beneficiaries who are 28 years and older to close their accounts or rollover the funds.

Mr. Perry then reviewed that Investment Board in May voted to set the following assumptions. For fall 2017, the Tuition Inflation Assumption, was set to an amount equal to the maximum amount of tuition and mandatory fees increases as permitted by the State of Ohio biennial budget, as signed into law by Governor Kasich; and for the following school years, the Tuition Inflation Assumption is set at 5.5%. The Investment Return Assumption for fall 2017 and thereafter is set at 4.5%.

As of June 30, 2107, the actualized value of obligations of the Guaranteed Savings Fund (GSF) when compared to the market value of assets leaves the GSF with an actuarial reserve of \$63.8 million, which means it's 126% funded.

In examining the "actuarial soundness" of the fund (meaning that the Guaranteed Savings Program has sufficient assets to cover the actuarially estimated value of tuition obligations), Mr. Perry stated if all obligations were paid out today (including any tuition increase), there would be \$76 million remaining. Ms. Good clarified that any remaining funds would revert back to the general revenue fund of the State of Ohio.

Chairman Braun asked if there were any comments or questions; discussion ensued. Mr. Benson asked for the number of "orphan" accounts in the fund. Mr. Kemp responded that there are approximately 75-100 "orphan" accounts in which the beneficiary is 28+ years old and that Ohio Revised Code requires that a notice be sent to account owners regarding closing accounts. Incorrect addresses prevent the fulfillment of that code requirement. Mr. Perry said that there are enough funds available to consider incentivizing the "buying out" of accounts. Mr. Benson then asked if there is a tax penalty for withdrawing funds. Ms. Good stated there is a 10% penalty. Mr. Gorrell added that the funds could be rolled over into

another account. Mr. Benson asked if the Guaranteed Savings Program would be opened again. Ms. Good answered that it would require the Investment Board approval to re-open the plan.

After the discussion, Chairman Braun called for a vote to approve Resolution FY17-11, the actuarial evaluation as presented at the August 17, 2017, regular meeting. Mr. Benson made a motion to approve. Mr. Kosonovic seconded. The remaining Investment Board members voted affirmatively and the motion passed.

GLIDE PATH DISCUSSION

Ms. Mary Ryan of Vanguard introduced Mr. Scott Donaldson, a senior investment strategist from Vanguard's Investment Strategy Group, to explain Vanguard's alternative glide path option.

Mr. Donaldson of Vanguard outlined two key themes supporting the alternative glide path option:

- 1) Offers more age ranges that include additional steps and smoother moves out of equities and into bonds and cash.
- 2) All three age-based options include three risk option categories: Conservative, Moderate and Aggressive, to better match investor risk tolerance.

Vanguard's new alternative glide path would use 12 portfolios across three risk options, increase the number of glide path steps, and reduce the risk process for investors. Mr. Donaldson noted that the alternative glide path's risk/reward balance will be more aligned with current investor's risk tolerance. In addition, Morningstar prefers smoother glide paths as stated in their 2015 and 2016 529-industry commentary.

Vanguard's own alternative glide path research showed that the risk aversion toward large glide path steps has grown, people are saving earlier extending the college saving time horizon, and their current clientele are opting to elect for a higher risk tolerance. Mr. Donaldson also stated that in Vanguard's analysis of stepped and smoothed glide paths, there was little difference in risk and return between the two paths options.

Mr. Braun asked if there were any comments or questions; discussion ensued. Mr. Benson expressed that communication is the key to rolling out these program changes. He asked if Vanguard has implemented this glide path transition in other states. Mr. Donaldson responded that Vanguard has implemented the transition in all participating states. Ms. Ryan of Vanguard added that Vanguard has sent a 30-day notice to shareholders but has not required a "sign off."

Mr. Braun inquired if there are increased costs associated with transitioning the plan. Ms. Ryan responded that Vanguard's operational efficiencies and portfolio accounting processes have lowered the cost to facilitate smaller glide path steps so to absorb any increased costs.

Mr. Braun asked Mr. DiGirolomo for Wilshire's analysis of Vanguard's alternative glide path option. Mr. DiGirolomo said Wilshire believes Vanguard's revised glide path options will improve the risk reduction process for account owners going forward. The revised approach will help minimize market risk as investor's transition through each age band. Although Wilshire believes an enrollment date-based path is more progressive and effective in reducing risk, the step down approach still maintains merit and will function better with the inclusion of additional age bands.

Mr. Braun postponed the vote on Resolution FY17-12 — the adoption of Vanguard’s alternative path until after Wilshire’s presentation of the enrollment date-based progressive glide path structure of the Advantage Age-Based Option.

Mr. David Lindberg of Wilshire began the discussion stating that Wilshire serves as the discretionary manager of the Advantage Age-Based Option (AABO) asset allocation and that the recommended change is based on one key goal, “to smooth out the plan.” He stated that an enrollment date-based progressive glide path offers a number of improvements over the current age-based approach:

- 1) Enrollment date-based approach offers the potential for smother transition between asset classes as investors move toward their enrollment dates.
- 2) Enrollment date-based approach eliminates the need to “string” together performance across age buckets, simplifies performance reporting, and gives an investor the ability to choose a target date suited to their situation and risk level.

Mr. Lindberg shared that under the enrollment date-based progressive glide path that the beneficiary would stay in the same fund until they reach their enrollment date and then are mapped in a graduate fund. Each enrollment asset allocation will be rebalanced quarterly, gradually reducing risk as the beneficiary progresses down the glide path towards their enrollment date. Additionally, the glide path will start with a slightly higher level of risk than the current glide path, and then follow a smooth path which will end at the same risk level.

Mr. Braun asked if there were any further questions; there were none.

Mr. Braun called for a vote on Resolution FY17-12, the Direct Plan adoption of the Alternative Glidepath offered by Vanguard as soon as operationally feasible. Mr. Kosanovic made a motion to approve. Mr. Benson seconded. The remaining Investment Board members voted affirmatively and the motion passed.

Mr. Braun then called for a vote on FY17-13, approving the Direct Plan adoption of the Progressive Glidepath managed by Wilshire as soon as operationally feasible. Mr. Kosanovic made a motion to approve. Rep. Duffey seconded. The remaining Investment Board members voted affirmatively and the motion passed.

VARIABLE SAVINGS PLAN INVESTMENT UPDATES

Direct Plan Performance

Mr. Lindberg of Wilshire provided an update on the Direct Plan performance. Mr. Lindberg noted that this has been an equity driven market with non-US markets performing better than US markets. For the quarter, he stated that 60% of age-based options ranked in the top half of their respective peer universes; 56% of risk-based and individual fund options ranked in the top half of their respective peer universes; and 58% ranked in the top half of their respective peer universes. He added that the 529 Universe Analysis shows that there have been strong returns over five years. He concluded by noting that the “status” table of Direct Sold plans shows that there is “No Action Required.”

Chairman Braun asked if there were any comments or questions; discussion ensued. Mr. Benson asked if the data presented includes fees. Mr. DiGiroloma responded affirmatively.

Fifth Third Rate Update

Mr. Lindberg informed Investment Board members that Fifth Third Bank is offering better rates than other banks. Ms. Good said that Fifth Third Bank will offer the special rate of 1% interest on CollegeAdvantage 529 CDs with terms of 6–11 months and 12-23 months effective Aug. 17, 2017, and will honor that rate until end of the calendar year.

BlackRock Advisor Plan Performance

Mr. Lindberg opened the discussion by stating that BlackRock had increased performance for this quarter as the result of some nice turnarounds by several of their funds. For the quarter, he said that 59% of the Advisor Sold funds ranked in the top half of their respective peer universes. As was the case with the Direct Plan Performance. Mr. Lindberg concluded that the “status” table of Advisor Sold plans also shows that there is “No Action Required.” He noted that there was one name change for a fund and three investment options replaced as discussed at the May 18, 2017, Investment Board meeting.

QUARTERLY FINANCIAL UPDATE

Ms. Good recapped the quarterly financial update. She shared that Ohio is the nation's sixth largest sponsor of 529 plans, with AUM as of June 30, 2017, at \$10.74 billion, which includes the \$229 million in customer value in the Guaranteed Plan. Overall, the AUM specific to Ohio's program increased 3.7% from the previous quarter. The year-over-year AUM change was 12.4%.

Ms. Good announced that Ohio is the nation's seventh largest sponsor of a Direct Plan, with an AUM as of June 30, 2017 of \$5.35 billion. This is an increase of 4.2 % during the quarter. The year-over-year AUM change was 15.6%.

Ohio remains the nation's fourth largest sponsor of an Advisor Plan, with AUM as of June 30, 2017, at \$5.16 billion. The BlackRock CollegeAdvantage Advisor Plan AUM increased by 3.3% during the quarter. The year-over-year AUM change in the Advisor Plan was 9.3%.

Ms. Good discussed the monthly contributions and distributions for the Direct and Advisor Plans. On a year-over-year basis, there was an 8.4% increase in contributions to the Direct Plan and 1.6% increase in the Advisor Plan. Combining the Direct and Advisor Plans, the percentage change in contributions was 5.6% year-over-year.

On a year-over-year basis, there was a 15.6% increase in distributions from the Direct Plan and 10.4% increase in the Advisor Plan. Combining the Direct and Advisor Plans, the percentage change in distribution was 12.4% year-over-year. These redemptions are in line with expectations since it is the payout season in the first and second quarters of the fiscal year.

Ms. Good proceeded to discuss the Guaranteed Plan. The market value of the Guaranteed Plan portfolio as of June 30, 2017, was \$307.5 million, which exceeds the tuition cash liability of the program of \$229.1 million. This represents a 134% funded status on a cash basis.

MARKETING UPDATE

Mr. Ben Gibbons, OTTA Director of Marketing, began by stating that the department implemented a targeted marketing strategy focused on three areas: employer, schools and libraries, and sports and entertainment. Marketing department staff were present at some

155 events this past year. The department has also made it a priority to gather quantitative data with all marketing campaigns.

Mr. Gibbons continued that the Direct Plan Funded New Enrollments saw an 11% growth rate in FY17 over FY16. The goal is 5%. Additionally, Direct Plan Contributions increased by 8.4% for FY17 over FY16. Again, the goal is 5%. Mr. Gibbons attributed some of the increases to the change of the marketing message during the tax campaign in March, which included quantifying how people could invest their tax refund in the 529 program. Mr. Gibbons added that a similar approach was taken with the Back-to-School campaign, which encourages families to open accounts early and continue a regular savings schedule.

Mr. Gibbons shared data from the FY17 Sweepstakes Entries and New Account Conversions. He also shared Facebook and Twitter statistics.

NEW BUSINESS

Chairman Braun asked if there was any new business to discuss. Mr. Gorrell introduced and welcomed new Investment Board member, Representative John Rogers.

PUBLIC PARTICIPATION

Chairman Braun asked if there was any public participation. There was none.

ADJOURN

There was a motion to adjourn the meeting. Ms. Chavanne made the motion to approve. Mr. Benson seconded the motion. Without objection, the meeting was adjourned at 12:27 p.m. The next meeting of the Ohio Tuition Trust Authority board is November 16, 2017.

Signed by:

Print name:  Mike Duffley

Date: 11.16.17