



Minutes of the Ohio Tuition Trust Authority Investment Board Regular Meeting

OTTA Investment Board Meeting – Thursday, February 14, 2019
77 S. High Street, 31st Floor, West B & C Conference Room, Columbus, Ohio 43215

CALL TO ORDER: 10:03 a.m.

Ms. Amy Lyle conducted a roll call and announced a quorum was present.

BOARD MEMBERS PRESENT:

Executive Investment Board Members: James Benson, Ann Womer Benjamin, Mike Duffey, Jack Green, Matthew Kirby, and David Kosanovic.

Legislative Investment Board Members: Representative John Rogers, Senator Sandra Williams, and Senator Steve Wilson.

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

Others present: David Lindberg, Wilshire; Stephen DiGirolamo, Wilshire; Mike Valchine, NEPC; Michelle Chavanne, General 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.

APPROVAL OF MINUTES

Chairperson James Benson asked for any questions or comments on the OTTA Investment Board minutes of the Nov. 15, 2018, regular board meeting. There was none. Mr. Benson called for a vote to approve the minutes. Sen. Sandra Williams made a motion to approve. The motion was seconded by Mr. Matt Kirby. A voice vote was taken. The motion was approved.

EXECUTIVE DIRECTOR UPDATE

Executive Director Tim Gorrell welcomed board members and noted that there are no additional voting items on the meeting agenda. Per the OTTA Investment Board request, the investment consultant's quarterly reports have been streamlined. The

board will receive an executive summary as well as the full investment consultants report each quarter. Mr. Gorrell first pointed out that the last quarter of calendar year 2018 had been rough with much stock market volatility but Ohio's 529 funds and strategies stayed strong.

Mr. Gorrell informed the OTTA Investment Board that one of the program's investment partners, Vanguard, contacted OTTA at the end of December 2018. Vanguard advised OTTA that they would be transitioning all assets in the Morgan Growth Fund to the U.S. Growth Fund, effective April 5, 2019. This change would affect CollegeAdvantage account owners who had individually opted to invest in the Morgan Growth fund as well as those account owners in the Advantage Age-Based Portfolios (AABP). According to Vanguard, this adjustment is implemented as a name change only as the investment objectives, risks, and expense ratios are not changing. This change was also vetted with OTTA recordkeeping partner, Ascensus, and OTTA investment consulting provider, Wilshire, who will speak on this change during the board meeting.

The next subject on which Mr. Gorrell spoke was the letter that the Financial Industry Regulatory Authority, Inc, (FINRA) sent to all brokers, including firms with advisor 529 plans, about their obligation to self-report any violations. For firms that do not report any wrongdoings that are eventually uncovered, there will be significant fines, suspensions, and potentially banning from the industry. BlackRock, OTTA's investment firm for the CollegeAdvantage Advisor Plan, reached out to Mr. Gorrell to assure OTTA that they have internal stopgaps to review all their trades.

Mr. Gorrell also spoke on how OTTA's banking partner, Fifth Third Bank, increased savings rates and adjusted CD rates. After comparing Fifth Third's CDs rate to the rest of the industry, they are the most competitive. Additionally, Fifth Third agreed to increase their rates on the 529 savings accounts after a request from OTTA.

Mr. Benson asked if the Investment Board had any questions regarding the report; there were none.

CONTRACTS DISCUSSION

Mr. Gorrell informed the Investment Board that OTTA's contracts with recordkeeping partner, Ascensus, and Direct Plan investment partner, Vanguard, will expire in 2020. OTTA's contract with Advisor Plan investment partner, BlackRock, will end in 2021. Therefore, the Investment Board will need provide guidance on how to move forward. The recommendation from OTTA staff is to retain the current relationships with Ascensus, Vanguard, and BlackRock, then renegotiate new contracts once the current ones end.

The contracts with Ascensus and Vanguard will both expire on November 5, 2020. Ascensus is regarded as the best record-keeper in the 529 industry. Vanguard is the second largest asset manager in the world. The contract with BlackRock will expire on June 14, 2021. BlackRock is the largest asset manager in the world.

OTTA CFO/CIO Trisha Good spoke about the excellent working relationships OTTA has with its current partners and that there are no fundamental problems or issues with them. Ms. Good then reviewed OTTA investment partners' history that led to the current contracts with Ascensus, Vanguard, and BlackRock.

Mr. Gorrell then laid out four courses of actions regarding the contracts for the Investment Board. The Investment Board will need to decide which option it wants OTTA to pursue. Sen. Steve Wilson asked if it was possible to create a hybrid of the course of actions available; for example, a five-year contract with a five-year extension with price negotiations. Mr. Gorrell said that OTTA would consider it as an option if the Investment Board requested it.

Mr. Gorrell asked what questions the Investment Board would like to cover.

Mr. Benson stated that the contract course of action would be one of the important decisions that the Investment Board would make. He asked if there was any established process or research to help support the Investment Board fulfill its fiduciary duties. Mr. Benson also asked if there is any legal support to guide the Investment Board.

Mr. Kosanvic agreed, saying that the Investment Board has an enormous responsibility with this decision and asked what is the best practice to follow.

Mr. Gorrell concurred on the importance of these contract decisions, which is why OTTA wanted to start the process at this quarterly meeting.

Mayor Ann Womer Benjamin pointed out that OTTA is pleased with their current partners. She added that she's concerned how it might look to the public if the Investment Board decides to publish a Request For Interest (RFI) from other investment partners and record-keepers. The Investment Board and OTTA has worked hard to earn the public's confidence, she continued, and it would disturb that positive perception and goodwill.

Mr. Kirby asked the representatives from Wilshire if their organization could provide a process to address all issues to judge these current partnerships. He also requested if Wilshire could furnish guidance for the Investment Board's due diligence to decide if a Request For Proposal (RFP) is necessary.

Mr. David Lindberg of Wilshire responded that Wilshire can work with OTTA to see if there is a need for issuing an RFP. Mr. Stephen DiGirolamo of Wilshire added that OTTA could ask for an RFI from the current partners to assess if OTTA and Investment Board is comfortable with the current relationships or to issue an RFP.

Mr. Benson asked if Wilshire would help in this review process and Mr. Lindberg reaffirmed that Wilshire would but that it could not provide legal guidance.

Sen. Wilson asked if the Investment Board's legal counsel representatives could provide legal guidance. Ms. Michelle Chavanne, the general counsel for the Ohio Department of Higher Education, said current internal legal counsel can provide general guidance of the Investment Board's fiduciary duties and review the current contracts. However, outside legal counsel would need to be brought in to verify the investment portion is up to 529 industry standards. Both Mr. Lindberg and Mr. DiGirolamo confirmed that Wilshire would work with OTTA's legal counsel.

Sen. Wilson then asked if during the review process, that Wilshire could evaluate and compare OTTA's fee structures to other states and 529 programs.

Mr. Lindberg said that Wilshire will gather the data of other program's fee structures per Sen. Wilson's request. Mr. Gorrell pointed out that it will take Wilshire some time to collect all the requested information. Sen. Wilson said that he was comfortable with OTTA supplying this information to the Investment Board Chairman, Mr. Benson, to have him decide how the Investment Board should move forward.

Mr. Mike Duffey asked if in order to do the proper due diligence, does Wilshire believe they can finish the review before the Investment Board's next quarterly meeting, May 16, 2019? Mr. Lindberg said it's a good possibility that Wilshire will have it completed with the next three months.

Ms. Good thanked the Investment Board for the robust discussion on what information it would like in order to decide a course of action at its May meeting.

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

GUARANTEED SAVINGS PLAN INVESTMENT

Mike Valchine of NEPC updated the Investment Board on the Q4 2018 Investment Performance Analysis of the Guaranteed Savings Plan (GSP). The plan assets are over \$237 million as of December 31, 2018. As discussed previously, there was a lot of market volatility during the last quarter of 2018 so the investment performance had a -1.2 percent return. However, Mr. Valchine that in January 2019, the portfolio performance was 1.8 percent.

Mr. Valchine verified that the GMO contract was terminated, in accordance with the Investment Board's vote. Additionally, the PIMCO products have been upgraded to "No Action is Required". NEPC is projecting an expected five to seven year return of 3.65 percent, when the current actuarial rate of return is 3.5 percent. NEPC has no concerns with the total fund performance.

Mr. Kirby asked if NEPC considers that one of the PIMCO investment option fee is too high. Mr. Valchine said the fee is in line with its peers.

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

VARIABLE SAVINGS PLAN INVESTMENT UPDATE

Direct Plan Performance

Mr. DiGirolamo of Wilshire provided an update on the Direct Plan performance. As stated before, fourth quarter of 2018 was influenced by stock market volatility.

Mr. DiGirolamo walked the Investment Board through the newly revised investment performance charts for the enrollment-date funds, age-based funds, and risk-based and individual funds. He added that all Direct Plan funds are in "No Action is Required" status.

Mr. Benson asked which funds are actively managed. Mr. DiGirolamo replied that the Vanguard options are passively managed and that the AABP contains some funds that are actively managed.

Mr. Kirby asked how long OTTA has had a relationship with Dimensional Fund Advisors (DFA) and how it was added to the CollegeAdvantage Direct Plan. Ms. Good and Mr. Lindberg replied that DFA was added in 2015 as a replacement for GE and PIMCO options. Mr. Lindberg added that DFA was included to keep cost structure down.

Rep. Rogers asked if OTTA's lineup of Vanguard options is similar to what is offered in other 529 programs. Mr. DiGirolamo said about 80 percent is, but there are some differences. Mr. Lindberg added that Wilshire's view is that OTTA currently has no gaps in its investment options offerings. Mr. DiGirolamo added that Wilshire is willing to adjust the investment offerings line-up provided the new options make the portfolios more efficient.

BlackRock Advisor Plan

Mr. DiGirolamo informed the Investment Board that the BlackRock Advisor Plan was also affected by the stock market volatility in the fourth quarter of 2018. One of the BlackRock individual options on the "Watch" list, BlackRock Global Allocation Fund, is underperforming its benchmark but fares well in the Morningstar and Lipper universe. Wilshire is continuing the conversation with BlackRock on this option as well as the other options on the watch list.

A discussion ensued about the fees that BlackRock charges for the CollegeAdvantage Advisor 529 Plan. Mr. Lindberg said that all the Investment Board questions were good things to dig into and to ask BlackRock to confirm their information.

Fifth Third Rate Update

Mr. DiGirolamo informed the board the Investment Board that the Fifth Third 529 CD rates and 529 Savings Accounts rates are fairly attractive compared to the competitors. There was some questions regarding the appropriate benchmarks for comparing the rates. Ms. Good replied that the chart will be reworked to do more of an apple-to-apple comparison.

Mr. Benson asked if OTTA markets the Fifth Third products in the Direct Plan. Mr. Ben Gibbons replied that the marketing department highlights the Fifth Third products to current and prospective customers when there is a rate increase.

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

MARKETING UPDATE

Mr. Gibbons began by reiterating the current OTTA marketing department goals are (1) increase new plan enrollments by 10 percent annually, and (2) increase plan contributions by 10 percent annually. To date for FY19, new enrollments are up 6.7 percent, compared to FY18. To date for FY19, contributions are up 20 percent, compared to FY 18. One likely reason for the growth has been the public's reaction to the state of Ohio income tax deduction increase to \$4,000 for contributions made to Ohio 529 Plan. This increase went into effect as of January 1, 2018. With this increase, CollegeAdvantage has seen growth of contributions in the \$2,000 - \$4,000 range.

Rep. Rogers asked where Ohio ranks with this deduction compared to other states, for other states do offer state income tax deductions and credits. Mr. Gibbons responded

Ohio 529 Plan ranks well, particularly since Ohio's program allows Ohio contributors to carry forward this deduction to their Ohio adjusted gross income for subsequent tax years until all of their contributions are fully deducted. Ohio's 529 Plan also has residents in other states participating in the program as it ranks high nationally, offers low fees, and has a good performance record.

Mr. Benson asked if OTTA has seen an increase in 529 withdrawals based on the inclusion of the \$10,000 K-12 tuition as a qualified higher education expense in the Tax Cuts and Jobs Act of 2017. Mr. Gibbons said that it appears that account owners are proceeding thoughtfully with their 529 plans and withdrawals. He added that the money for K-12 tuition expenses are being added to the account, then withdrawn shortly afterwards to cover this specific cost so it is not eroding the higher education savings.

Mr. Duffey asked if it was possible to add to the Investment Board package the numbers of accounts using these short-term deposits and withdrawals for K-12 tuition costs. Mr. Gorrell shared that the Ohio Department of Taxation has also asked for this information and that OTTA is working with Ascensus to determine how to provide this data.

Mr. Gibbons also shared that the next marketing campaign will focus on tax refunds. Tax time is a good campaign as it may be the largest yearly one-time financial windfall for a family. Due the long government shutdown in December 2018 and January 2019, as well as the looming possibility of another shutdown, the campaign will start around March 11. He also has stated that early reports are showing a decrease in the size of the tax refunds.

Lastly, Mr. Gibbons shared that OTTA has entered into a new partnership with the Cleveland Indians and the Cleveland Indians Charities.

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. There was none.

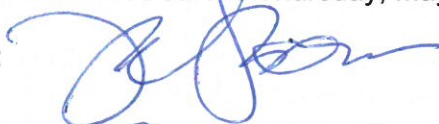
PUBLIC PARTICIPATION

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 12:15 p.m. The next meeting of the Ohio Tuition Trust Authority Investment Board is Thursday, May 16, 2019.

Signed by:



Print name:

JAMES D. BENSON

Date:

5/16/19