



Minutes of the Ohio Tuition Trust Authority Investment Board Regular Meeting

OTTA Investment Board Meeting – Thursday, May 16, 2019
77 S. High Street, 31st Floor, West B & C Conference Room, Columbus, Ohio 43215

CALL TO ORDER: 10:04 a.m.

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

BOARD MEMBERS PRESENT:

Executive Investment Board Members: James Benson, Michelle Chavanne (Chancellor's Designee); William Elliott, Jack Green, Matthew Kirby, and David Kosanovic.

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

Ohio Tuition Trust Authority (OTTA) Staff: Tim Gorrell, Executive Director; Trisha Good, CFO/CIO; Dave Kemp, Director of Customer Service and Operations; Shreekanth Chutkay, IT & Data Manager; Ben Gibbons, Director of Marketing; Kimberly Fisher, Human Resource Specialist; Judy Cunningham, Community Outreach and Public Relations Manager; Amy Lyle, Communications Coordinator; and Mark Smith, OH-Tech.

Others present: Stephen DiGirolamo, Wilshire; Craig Svendsen, NEPC; 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 Feb. 14, 2019, regular board meeting. There was none. Mr. Benson called for a vote to approve the minutes. Rep. John Rogers made a motion to approve. The motion was seconded by Sen. Steve Wilson. A voice vote was taken. The motion was approved.

EXECUTIVE DIRECTOR UPDATE

Executive Director Tim Gorrell welcomed board members and noted that there are multiple voting items on the meeting agenda. Mr. Gorrell stated that Ohio's 529 Direct Plan remains ranked sixth nationally and the Advisor Plan is ranked fourth nationally for Assets Under Management (AUM). Additionally, Savingforcollege.com continues to rank Ohio's 529 Plan as one of the best in class.

Mr. Gorrell also spoke on potential federal legislation that would affect 529 plans, the "Setting Every Community Up For Retirement Enhancement (SECURE) Act of 2019." The proposed legislation would allow withdrawals from 529 plans to pay for apprenticeship programs, certain K-12 expenses, home-schooling costs, and student loan repayment up to \$10,000.

The Ohio 133rd General Assembly also has introduced a bill (Senate Bill 125 and House Bill 193) to allow for tax parity for contributions made by Ohioans to other state's 529 plans. Mr. Gorrell shared that seven states have this tax parity, but many, including Pennsylvania, are now trying to end it. Mr. Benson asked how to monitor the progress of these bills; Rep. John Rogers provided an explanation of the legislative process.

CONTRACTS DISCUSSION

As discussed at the Feb. 14, 2019, Investment Board meeting, OTTA's contracts with recordkeeping partner, Ascensus, and Direct Plan investment partner, Vanguard, will expire on Nov. 5, 2020. OTTA's contract with Advisor Plan investment partner, BlackRock, will end on June 14, 2021.

Mr. Gorrell explained that, in accordance with the Investment Board's instructions from the February meeting, OTTA staff initiated conversations with these partners through face-to-face meetings and multiple conference calls. Wilshire, the independent consulting firm, created questionnaires for these partners to answer that comprehensively addressed critical delivery and organizational functions. In addition to Ohio Department of Higher Education Chief Legal Counsel Michelle Chavanne, who serves as OTTA's in-house counsel, Jessica Voltolini, with local law firm Ice Miller, was brought on as outside legal counsel during this contract process. Ms. Voltolini previously was the in-house legal counsel for OTTA.

Ascensus

Mr. Gorrell began the contract discussion with Ascensus, OTTA's recordkeeping partner for the CollegeAdvantage Direct 529 Plan. The new contract would be for a five-year term with one renewable five-year extension (resolution FY19-02).

Mr. Gorrell spoke how this firm supports 37 529 programs with significant AUMs. As Ascensus grows, the firm continues to provide an excellent personal touch, which is vital to sustaining OTTA's operations. Mr. Dave Kemp, OTTA's Director of Customer Service and Operations, spoke on Ascensus' legal and compliance procedure. Mr. Kemp shared that Ascensus has a sizable compliance team that has guided OTTA through the Unite and Two-Factor Authentication updates. Additionally, OTTA's banking partner, Fifth Third Bank, has entrusted Ascensus to review the volume of "Know Your Customer" information required by Patriot Act regulations. Mr. Shreekanth Chutkay, OTTA's IT & Data Manager, said that Ascensus has an internal compliance

team, all data sets are well-encrypted, and their most recent software audit showed no instances of problems. KPMG has been selected as Ascensus' third-party auditing firm. KPMG's annual report has come back clean.

After hearing this information, Sen. Wilson made the motion to start voting on the Ascensus contract; however, Mr. Benson asked if OTTA will come back to the Investment Board to review the renegotiated contract. Mr. Gorrell confirmed that OTTA will. Mr. Benson asked how the current fees compared to industry standards. Ms. Good answered that it is hard to discover what other 529 plans' fees are. She continued that Morningstar and Savingforcollege.com used a fee component as part of their ranking decisions. Mr. Steve DiGirolamo said that the questionnaire didn't ask for the best and final fee structure; therefore, OTTA will negotiate for lower fees as Ascensus values the partnership.

Mr. Benson asked if there were any other questions. Discussion ensued.

Mr. Gorrell said, that based on Wilshire and OTTA's research, the recommendation is to retain Ascensus as the recordkeeping partner and asked the Investment Board to authorize OTTA to negotiate a new contract with Ascensus.

Mr. Benson called for a vote on resolution FY19-02. David Kosanovic seconded the motion made earlier by Sen. Wilson. A voice call was held and the FY19-02 passed unanimously.

Vanguard

Mr. DiGirolamo started the discussion on retaining Vanguard as the CollegeAdvantage Direct 529 Plan partner. Vanguard currently provides investment, portfolio accounting, and reconciliation services for the Direct Plan. The new contract would be for a five-year term with one renewable five-year extension (resolution FY19-03).

In their research and analysis, Wilshire found that Vanguard offers a strong product lineup of investment options for OTTA's customers. Additionally, Wilshire approves of Vanguard's thoroughness of research, which then dictates Vanguard's change procedure. For an example, Mr. DiGirolamo pointed to the 2018 glide path changes to the Direct age-based portfolios and how smooth the process went. Additionally, Mr. DiGirolamo pointed out that Vanguard's collaboration with OTTA is strong, which demonstrates how much the firm values OTTA.

Ms. Good detailed how Vanguard's investments performed compared to 529 universe peer groups: for the one-year category, Vanguard is in top 81 percent of the 529 peers; three-year category is 48 percent; and the five-year category is in the top 70 percent.

Mr. DiGirolamo added that Vanguard offers new products and has specific teams that continually work on improving performance and strategies.

Sen. Wilson asked what Vanguard's historic performance is like in down markets. Mr. DiGirolamo answered that Vanguard tends to be more conservative so it usually outperforms its peers in flat or down markets.

Mr. Gorrell added that Vanguard has deep management and legal teams and that the whole organization holds itself internally to high legal and ethical standards. Mr.

Chutkay stated that Vanguard has a strong infrastructure with an impressive emergency plan to continue serving their customers. Mr. Chutkay said he is very comfortable with their IT procedures and security.

Mr. Benson asked which third-party auditing firm Vanguard uses. Ms. Good answered that it is PricewaterhouseCoopers. She also noted that since OTTA has partnered with Vanguard, their audits have been clean, reflecting no significant issues.

Ms. Good also spoke on the fees Vanguard charges. After asking OTTA's relationship manager for fees from other 529 programs with whom Vanguard is partnered, OTTA was told that it is proprietary information. However, Vanguard's fees are scaled according to AUM. Mr. Benson asked OTTA and Wilshire to still try to produce a competitive analysis of fees in the 529 peer universe. Mr. Matt Kirby said that Vanguard historically have very low costs but agreed it would be best to review the underlying fund and administrative fees.

Mr. Benson asked if there were any other questions. Discussion ensued.

Mr. Gorrell said that based on Wilshire and OTTA's research, the recommendation is to retain Vanguard as an investment partner and asked the Investment Board to authorize OTTA to negotiate a new contract with Vanguard.

Mr. Benson called for a vote on resolution FY19-03. Rep. Rogers made the motion, which was seconded by Sen. Wilson. A voice call was held and the FY19-03 passed unanimously.

BlackRock

Mr. Gorrell started the contract discussion on BlackRock, the current CollegeAdvantage Advisor 529 Plan program manager. With the Investment Board's approval, OTTA would retain BlackRock as the program manager for the Advisor 529 Plan, providing investments, record-keeping, marketing, and distribution services. The new contract would be for five years with one renewable five-year term (resolution FY19-04).

However, OTTA has the option to extend the BlackRock contract, which will end on June 14, 2021, for an additional two years. At the end of that extension, OTTA could then negotiate a new five-year contract with a potential five-year extension. The main advantage of the two-year extension with BlackRock is to split up contract negotiations for OTTA's three large partnerships with Ascensus, Vanguard, and BlackRock. This separation would allow OTTA more time and opportunity to negotiate with all three major firms.

Mr. Gorrell stated that BlackRock is the largest asset manager in the world and the firm is committed to 529 plans. Acknowledging that Vanguard is a close second in this field, BlackRock is closely scrutinizing their fee structure.

Mr. DiGirolamo continued that BlackRock is known for their good communications in the advising world. BlackRock pays close attention to what their advisors say on what they need to best serve their clients as well as identify better strategies and better investment options to drive more assets to the firm.

Sen. Wilson and Mr. Benson both asked about BlackRock's fees. Mr. DiGirolamo stated that there are different components to BlackRock's fee structure, the underlying fund expense ratio, the additional 529 fees (BlackRock Program Management and OTTA administrative fees) as well as sales charges (initial and on-going) for the individual financial advisor selling the investment to the customer. In comparing OTTA's fees to the other top ten 529 Advisor programs, Wilshire found OTTA fees are in the median. Mr. DiGirolamo believes there are opportunities to work on reducing the fees. He added that there have been no new program managers entering the advisor 529 field.

Mr. Kemp spoke on Omnibus, an administrative system BlackRock utilizes, which reduces the amount of paperwork an advisor and his or her client needs to fill out, making the investment process smoother for all parties. BlackRock is furthering this approach of less client paperwork by collaborating with Morgan Stanley, Merrill Lynch, Edward Jones, and soon, another major partner.

Mr. Benson asked what OTTA management preferred — a two-year extension of the current contract with BlackRock or a new contract, which is not to exceed ten years. Ms. Good replied that management would prefer the two-year extension and then start the new contract discussion with BlackRock at the end of that continuation.

Mr. Kirby asked what other firms are in the 529 advisor plan field. Mr. DiGirolamo responded with Voya, T. Rowe Price, and TIAA-CREF among others. Vanguard is not in advisor 529 space.

Mr. Benson asked if there were any other questions. Discussion ensued.

Afterwards, the Investment Board recommended utilizing the two-year extension on the BlackRock contract. Sen. Wilson made the motion to allow OTTA to extend the current contract, which was seconded by Mr. Kosanovic. A voice call was held and the recommendation passed unanimously.

Mr. Gorrell thanked Wilshire for all their analysis and expertise in guiding OTTA and the Investment Board on these partner contracts.

GUARANTEED SAVINGS PLAN INVESTMENT

Asset Allocation

The next item on the Investment Board agenda was Guaranteed Savings Plan (GSP) and its asset allocation. OTTA management and investment consultant NEPC recommended reducing the amount of equity held within the fund by changing the asset allocation and eliminating two current investment allocations (resolution FY19-05).

Craig Svendsen with NEPC spoke that the amount of accounts remaining in the GSP is decreasing. The fund bounced back well after the fourth quarter of CY18 and is back up to 3.1 percent growth. Ms. Good added that the GSP is fully funded at 138 percent on an actuarial basis.

NEPC has three recommendations concerning the GSP. First is to combine two State Street investments into one index fund for a fee reduction and to further de-risk the asset allocation with more fixed income and lower actuarial investment return

assumption. The second is to eliminate two different allocations (PIMCO All Asset Return and BlackRock's US Debt Fund) and then increase the asset allocation to a custom treasury portfolio. The third is to create a mirror investment portfolio in the Reserve Fund that matches the Trust Fund. This will require OTTA to open mirror accounts with State Street Global Advisors and with Loomis Sayles. OTTA has an existing relationship with both firms.

Mr. Kirby asked why Loomis Sayles was recommended. Mr. Svendsen said that Loomis has offered great fees and will customize the portfolio to OTTA's desired asset allocation specifications.

Mr. Benson asked if there were any questions. Discussion ensued.

Mr. Benson then called for a vote on resolution FY19-05. Sen. Wilson made the motion, which was seconded by Sen. Williams. A voice call was held and the FY19-05 passed unanimously.

Annual Valuation

The discussion then moved to next agenda item concerning the GSP – the annual valuation (FY19-06).

The 13 four-year public universities in Ohio have all adopted the Tuition Guarantee pricing model, which will become the new standard in pricing tuition going forward. Ms. Good recommends that the tuition inflation assumption for fall 2019 be an amount equal to the maximum amount of tuition and mandatory fee increases permitted by the State of Ohio biennial budget. For the following school years, Ms. Good recommends setting the tuition inflation assumption at 5 percent.

For the investment return assumption, Ms. Good recommends setting the amount for fall 2019 and following school years at 3 percent. With the implementation of the asset allocation changes described in resolution FY19-05, the total expected investment return will be lowered from 3.7 percent to 3.1 percent and expected risk will be reduced from 3.8 percent to 2.8 percent. By keeping the return expectations low, it will allow assets to be invested conservatively to minimize the risk of declining markets, which would have a material effect on the GSP funded status.

Sen. Wilson asked if there were any foreseeable issues with lowering the assumptions. Ms. Good responded that Milliman and NEPC are both supportive of this change, which will keep the GSP fully funded on both an actuarial and cash basis. Mr. Benson added that the GSP is guaranteed by the state so being conservative will help preserve the existing cash cushion.

Ms. Chavanne further explained the Tuition Guarantee pricing model. It starts as a student starts his or her college degree and guarantees four years of no institutional tuition increases. With each new school year, the school can update the tuition amount for the new entering class (cohort), which will then be frozen for the next four years. This will allow families to better plan for higher education expenses.

Mr. Benson asked if there were any questions. Discussion ensued.

Mr. Benson then called for a vote on resolution FY19-06. Mr. Kosanovic made the motion, which was seconded by Mr. Elliott. A voice call was held and the FY19-06 passed unanimously.

VARIABLE SAVINGS PLAN INVESTMENT UPDATE

Direct Plan Performance

Mr. DiGirolamo provided an update on the Direct Plan performance. The stock market has bounced back after a volatile fourth quarter of CY18.

Mr. DiGirolamo walked the Investment Board through the investment performance charts for the enrollment-date funds, age-based funds, risk-based funds, and individual funds. He spoke on two investment options that outperformed their benchmark — Dimensional Fund Advisors (DFA) U.S. Investment Grade Fund and Vanguard Morgan Growth. The latter is now transitioned into the Vanguard U.S. Growth Fund.

For the enrollment-date funds, all the quarterly returns were positive, especially the ones with more aggressive equity in them. For the Vanguard age-based funds, there were strong results as all funds positively performed.

BlackRock Advisor Plan

Mr. DiGirolamo next discussed BlackRock Advisor Plan performance with the Investment Board. The enrollment-date funds all had positive returns, with a strong performance against 529 peers.

Five investments funds underperformed its benchmark, including BlackRock Global Allocation Fund. Mr. DiGirolamo said Wilshire is continuing talks with BlackRock on this option as well as the other portfolios. Mr. Benson asked if other investment options should be added to the BlackRock Advisor Plan to replace portfolios, including BlackRock Global Allocation Fund. Mr. DiGirolamo said Wilshire still believes this particular fund should be kept in the mix as it has an equity-style returns with fixed-income risks. Mr. Kirby added that performance is not always the number one measure, with diversification and reduced risk is also being important.

Mr. Benson asked if there were any questions. Discussion ensued.

MARKETING UPDATE

Mr. Gibbons began by restating 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. At the end of the third quarter of FY19, new enrollments are up 6.9 percent, compared to FY18. To date for FY19, contributions are up 12.3 percent, compared to FY18. Mr. Gibbons stated that the market volatility in the fourth quarter of CY18 as well as the federal government shutdown, the threat of a second shutdown, and possible impacts on tax refund processing affected the public's purchasing confidence.

Due to these items, the start of tax campaign was pushed back a month, which kept Ohio's 529 Plan out of the advertising market for two months.

Mr. Gibbons announced that the next campaign, which is focused on graduation, was scheduled to go live on Monday, May 20, and would run through Sunday, June 16.

Mr. Gibbons informed the board that OTTA had issued a Request For Proposals (RFP) for the FY20-21 Comprehensive Advertising contract. Seven different agencies met the requirements with their proposals. Mr. Gibbons named the members of the consensus team who would be reviewing the proposals: Mr. Gorrell, Mr. Chutkay, Mr. Gibbons, Ms. Judy Cunningham, community outreach and public relations manager; Ms. Jung Kim, graphic designer and email specialist; and Ms. Lyle. Once the seven proposals are judged based on criteria set by the Procurement Office, three finalists would be invited to present their proposal. By the beginning of June, Mr. Gibbons said a decision will be made and contract negotiations would begin for an August 1, 2019, start date of the new contract.

Lastly, Mr. Gibbons shared the tax campaign advertisements and gave a preview of the upcoming graduation campaign.

Mr. Benson asked if there were any comments or questions. There were 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. Mr. Gorrell introduced Ms. Nancy Polisen, who will become his executive assistant and OTTA Investment Board Secretary by the next board meeting. The Investment Board welcomed her.

ADJOURN

Mr. Benson called for a vote to adjourn the meeting. Mr. Kosanovic made a motion to adjourn. The motion was seconded by Mr. Kirby. A unanimous voice vote was taken. The meeting was adjourned at 12:33 p.m. The next meeting of the Ohio Tuition Trust Authority Investment Board is Thursday, August 15, 2019.

Signed by:

Print name: _____

Date: _____


