

Minutes of the Ohio Tuition Trust Authority

BOARD MEETING – August 20, 2015
35 E. Chestnut Street, Basement, Mohican Conference Room, Columbus, Ohio 43215

CALL TO ORDER: 10:10 a.m.

Ms. Elizabeth Yassenoff took roll and announced that a quorum was present.

BOARD MEMBERS PRESENT:

Executive Board Members: Eric Braun, Executive Chairman; Ann Womer Benjamin; Vineeta Jindal; David Kosanovic; and Charles See (Chancellor's designee).

Legislative Board Members: Representative Mike Duffey, Senator Shannon Jones, Senator Sandra Williams.

Ohio Tuition Trust Authority (OTTA) Staff: Trisha Good, CFO/CIO; Beverly Martin, Director of Marketing; Brent Templeton, Interim CTO, Elizabeth Yassenoff, In-House Counsel and David Kemp, Director of Customer Service and Operations.

Others Present: David Lindberg, Wilshire; Craig Svendsen, NEPC; Alan Perry, Milliman; Michelle Chavanne, General Counsel, Ohio Department of Higher Education.

The meeting was properly noticed in accordance with provisions of Ohio Administrative Code § 3334-1-02, adopted in accordance with Section 111.15 of the Ohio Revised Code.

OPENING COMMENTS FROM EXECUTIVE CHAIRMAN

Chairman Braun informed the Board that Executive Director Paul Paeglis had submitted his resignation and his last official day would be Friday, August 28, 2015. Chairman Braun introduced Trisha Good and announced that she would assume the role of Interim Executive Director following Mr. Paeglis's departure. Each individual present at the meeting was asked to provide an introduction and include his/her role, and the meeting proceeded with such introductions.

APPROVAL OF MINUTES

Chairman Braun indicated that the Executive Committee had met immediately prior to this meeting and approved the Executive Committee meeting minutes from February 19, 2015. Chairman Braun indicated that the approved minutes were included in the members' Board books. Chairman Braun proceeded to ask for any questions or comments on the full Board minutes of the May 21, 2015 meeting. There were no questions or comments on the full Board minutes and Chairman Braun asked for a motion to approve the minutes. Mr. David Kosanovic made a motion to approve. The motion was seconded by Ms. Ann Womer Benjamin and carried unanimously.

EXECUTIVE DIRECTOR UPDATE

Ms. Trisha Good welcomed all to the meeting. Ms. Good reminded the board of the recent investment changes that took place for the Direct Plan on June 19, 2015. She explained that there were 5 funds that were exchanged out and mapped to new funds. The GE Institutional International Equity Option was remapped to the Dimensional Fund Advisors World Ex. US Core Equity Portfolio. The Vanguard Developed Markets International Stock Index Option was remapped to the Vanguard Total International Stock Index Option. The PIMCO High Yield Option was remapped to the Vanguard Corporate High Yield Option. The PIMCO Total Return Option was remapped to the Dimensional Fund Advisors US

Investment Grade Portfolio. The Vanguard Inflation-Protected Bond Option was remapped to the Vanguard Short-Term Inflation Protected Bond Index Option.

In addition, changes were made to the Vanguard Age Based and Risk based options based on the direction and suggestions of Vanguard Management Team. There were also changes to the Advantage Age Based Portfolio based on the suggestions of Wilshire and OTTA Management. She further explained that the OTTA fee for both the Advisor and Direct Plans went from 4 basis points to 2 basis points.

Ms. Good indicated Investment Option changes went extremely well. Mr. Kosanovic asked whether there has been any response from customers regarding the decrease in fees. Mr. Kemp responded that there has not been a direct response to the decrease in fees, but that feedback regarding the investment changes has generally been very positive.

Ms. Good informed the Board that the Direct Plan has the 7th lowest fee structure (7 out of 50), and the Advisor Plan by Blackrock has the 17th lowest fee structure (17 out of 32) according to Strategic Insight. The combined Variable Savings Plans offered by CollegeAdvantage have over \$9.2 Billion in Assets Under Management. She informed the Board of contributions during the last quarter. Direct contributions were up 7% compared to the same period in the previous fiscal year. Advisor contributions were down 13% compared to the same period in the previous fiscal year. She informed the Board of a major contribution that was made to the Advisor Plan during the previous fiscal year causing the year-over-year difference in contribution percentages.

Ms. Good informed the Board of CollegeAdvantage Direct Plan being named as a Top 10 in terms of investment performance for the one year ending June 30, 2015 according to SavingforCollege.com. In addition, the CollegeAdvantage Direct Plan was named the 9th best in terms of investment performance for the for the five year period ending June 30, 2015 as well. SavingforCollege.com based this information on performance of the investment options in all Direct Plans across the country.

Ms. Good made the Board aware of a meeting with Morningstar to discuss both the Direct and Advisor Plans. This meeting will take place on September 2, 2015 at the Morningstar office. Ms. Good will be attending along with David Lindberg of Wilshire, and both Tom Morgan and John Park of Blackrock. She indicated there was hope of being able to achieve the Gold Rating with Morningstar due to the recent investment changes and the overall reduction in fees for the Direct Plan.

Ms. Good introduced Ms. Yassenoff to present Resolution FY 16-01 (attached) regarding revisions to the Declaration of Trust for the Variable Savings Plans. Ms. Yassenoff explained these changes are needed based on the recent investment changes to the Direct Plan in order to bring the document up to date and add clarity. Mr. Kosanovic asked for clarification of the changes being made to the Declaration of Trust, and Ms. Yassenoff further explained the need for the changes. Chairman Braun asked if there were any other questions. There were no questions, so he asked for a motion to approve Resolution FY 16-01, and Mr. See made the motion. Mr. Womer Benjamin seconded. Roll call was taken by Ms. Yassenoff and the motion passed unanimously.

GUARANTEED SAVINGS PLAN INVESTMENT UPDATE

Mr. Svendsen reported the Guaranteed Savings Plan total assets are \$399.9. The Plan returned -0.4% during the quarter and -0.2% for the Fiscal Year to Date. He discussed the losses in relation to the broad market and indicated the market has been difficult due to the interest rate moves both within the US but also in other markets (Europe and Asia). He indicated that China's stock market dropped by 30% but is back to where it was in March 2015. He further indicated that recent events in Greece has had a small impact, but the resolution provides a road map for how this type of issue would be handled if another country within the European Union had a similar issue. He indicated another challenge with the returns is that the Managers of the investment options have not invested a great deal in US Equities and as a result, the performance has not been as strong. The total fund asset allocation is very close to the policy target allocation, re-balancing is continuously used to maintain the portfolio target. Mr. Svendsen indicated despite the return over the last quarter, the Guaranteed Plan is still in tremendous shape. He indicated this is due to our previous assumptions of Tuition increases compared to the actual Tuition

increase that occurred. He asked if there were any questions. Mr. See asked if there were any changes that needed to be made to the Plans allocations to reduce downside risk. Mr. Svendsen indicated the Plan's allocations were where they currently need to be despite the challenging quarter. He said at the end of the year there will be another review to see if there is an opportunity to reduce the risk of investment options further. Senator Sandra Williams asked what role that NEPC plays in influencing the investment managers specifically around investment in US Equities. Mr. Svendsen indicated that NEPC is involved in discussion constantly and tracks the various investment managers. Currently, some investment managers are devaluing US Equities because of their strong performance recently and the expectation is for these investments will begin to not perform as well. He believes the current strategy is prudent. Sen Williams asked if we are expecting any investment changes due to recent federal initiatives and the status of Cuba. Mr. Svendsen said that all are passively invested with the equity space and fixed income is very liquid. Discussion ensued.

GSF ACTUARIAL VALUATION REVIEW

Mr. Alan Perry thanked the Board for the opportunity to present to the group and he began by providing the group with an overview of the Guaranteed Plan's history. He explained there are two important assumptions that form the basis of the Actuarial Review: 1) the Investment Return Assumption and 2) the Tuition Increase Assumption and the OTTA Board established these assumptions at the May 2015 meeting for this year's valuation.

Mr. Perry presented the funding position for the Guaranteed Plan for end of fiscal year 2015, and the fund currently has a total actuarial reserve of \$56.9 million. Last year at this time there was an actuarial reserve of \$42.2 million, for comparison purposes. The present value of future obligations/payments for the plan is shown at \$342.8 million compared to the market value of assets of \$399.7 million. The Plan is currently funded at 116. %. (For comparison, last year it was funded at 110 %.)

Mr. Perry discussed a chart which shows that the Guaranteed Plan has approximately 10-12 more years of significant payouts. He indicated during this period the greatest risk is the investment return.

Mr. Perry indicated the Guaranteed Plan is in very good shape and he said there were options the Plan has now that it did not have previously. He indicated there is an opportunity to encourage account owners to rollover their funds into other 529 Plans such as the Direct and Advisor Plans by using the surplus to offer incentives to do so. Mr. See asked about the impact these types of incentives might have on the plan. Mr. Perry said the Plan was in position where this was financially responsible and it would help reduce the agency's risk associated with long term returns. Representative Mike Duffey asked Mr. Perry to estimate the impact of continued tuition caps. Discussion ensued. Mr. Perry indicated that even if only half of the account owners took this offer, it would be the best risk-reduction strategy OTTA could take.

Mr. Perry asked if there were any other questions, and there were no further questions. Chairman Braun asked for a motion to approve Resolution FY-02 (attached) to approve the actuarial valuation and continued payout value for Guaranteed Plan accounts with beneficiaries under 18. Mr. Kosanovic made the motion and Ms. Vineeta Jindal seconded the motion. Roll call was taken by Ms. Yassenoff and the resolution passed unanimously.

VARIABLE SAVINGS UPDATE

Mr. David Lindberg referred to Wilshire's Executive Summary of Investments provided in the Board notebooks. He indicated there are a few items that are being watched very closely. These include the concern about the Federal Reserve's next steps and dealing with the issues that Mr. Svendsen discussed around the world. He indicated that US Equities had a relatively flat quarter, and the performance of these investment options has been extremely strong since the recession. For the Direct Plan quarterly results are as follows, 40% of age-based options and 58% of risk-based options ranked in the top half of their respective peer universes. The one year performance for the Direct Plan remains very strong with 80% of age based products and 92% of Risk Based products in the top half of their respective peer universes. The fund manager changes that were outlined in the previous Board meeting are being implemented. Mr. Lindberg reviewed the glide paths of the Advantage Age-Based options, stating they

will be changing with the implementation of new direct line-up of funds. He covered details of performance returns, highlighting Vanguard Windsor II outperforming its benchmark by 84 basis points (bps) for the quarter and Vanguard Morgan Growth outperforming its benchmark by 116 bps for the quarter.

Mr. Lindberg stated that 60% of the BlackRock age-based options are in the top half of their respective peer universes during the quarter. Additionally, 65% of the risk-based and individual options are in the top half of their respective peer universes for the quarter ending June 30, 2015. The one year numbers are also very strong with 60% of the age based products and 78% of the risk based products in the top half of their respective peer universes. Mr. Lindberg covered additional details of performance returns specifically indicating the following had good quarters, GNMA Option, High Yield Bond Option, Global Allocation, Large Cap Core Option, Capital Appreciation Option and Voya Small Company Option. Mr. Lindberg said the Multi-Asset Income Option is a new fund with Blackrock and the first three quarters have been challenging due to the interest rate challenges.

Mr. Lindberg asked if there were any questions. Senator Williams asked for clarification regarding the rankings. Mr. Lindberg provided the additional detail around the rankings of the investment options. Ms. Williams asked if the investment managers are factoring in the recent EPA changes as it relates to Energy Futures. Mr. Lindberg indicated there are analysts at each firm that follow these items closely and make the necessary changes to their strategy based on the information they research.

NEW BUSINESS

Chairman Braun asked for any new business to be brought before the Board, any questions or comments. Mr. Kosanovic asked for any information relevant to the Board members and plan investments in light of the recent announcement of staffing changes. Ms. Good responded that the transition was proceeding smoothly and there were no concerns to note. Mr. Kosanovic also asked for a follow-up to the previous Board discussion relating to Directors and Officers insurance. Ms. Michelle Chavanne summarized the confirmation she received from the office of the Ohio Attorney General that the policy was duplicative in light of the government immunity that applies to the Board members. Mr. Braun indicated there may be a need for a communication from management on this matter due to the lingering discomfort being expressed by Board members.

Chairman Braun asked if there was any further new business or questions, and there were no additional items.

PUBLIC PARTICIPATION

There was no public participation in the meeting.

ADJOURN:

Chairman Braun asked for a motion to adjourn the meeting. Ms. Williams made the motion and Mr. Kosanovic seconded the motion. Without objection, the meeting was adjourned at 12:17 pm.

Signed by: 

Mr. Eric Braun
Executive Committee Chairman

Date: 2-18-16