

Minutes of the Ohio Tuition Trust Authority

BOARD MEETING – September 25, 2014

35 E. Chestnut Street, Basement, Mohican Conference Room, Columbus, Ohio 43215

10:10 am - An informal discussion began because a quorum was not yet present.

DIRECT AND ADVISOR SOLD PLAN UPDATES:

Mr. Paul Paeglis asked Mr. David Lindberg of Wilshire to present the update of the Direct Sold and Advisor Sold Plans. Mr. Lindberg referred to the Direct Sold report in the Board notebook and commented that the returns have been very strong. He pointed out that 21 of the total 37 funds ranked in the top half of their respective peer universes for the quarter. The three year time frame has 24 of the 36 funds ranking in the top half of their respective universes. All investments in the program have experienced earnings over the last five years. The lower returns in the conservative age-based funds are due to the relatively low investments in the equity driven markets. The GE Institutional International Equity fund experienced negative returns year-to-date. He reviewed details of several individual funds and discussion ensued.

Mr. Lindberg continued with an analysis of the investment managers, providing details on several of the management teams. He specifically addressed the GE Institutional International Equity fund, which was placed on watch status due to underperformance and portfolio manager changes.

Mr. Lindberg moved on to a review of the Advisor Sold program, stating the overall rankings are not too bad with 45% of the funds above the median for the quarter. In the one and three year periods, 61% of the options were in the top one-half of 529 peers. The more conservative funds are ranking lower and as you move to moderate and higher risk funds, the ranking goes up. He stated that it is a tough time for stock selection and that it is difficult to get the right allocation given the current market conditions. The higher fee structure of the Advisor Sold program also creates a little more challenge. They will soon have the five year statistics for the BlackRock funds, which have an inception date during the third quarter of 2009, and they feel BlackRock will do well overall. Mr. Lindberg asked for questions and discussion ensued.

CALL TO ORDER: 10:40 am

Ms. Elaine Kinney took roll and announced that a quorum was present.

BOARD MEMBERS PRESENT:

Executive Board: Ann Womer Benjamin; Dr. Matthew Filipic and Charles See (Chancellor's designee).

Legislative Board: Senator Kevin Bacon; Representative Michael Stinziano.

Ohio Tuition Trust Authority (OTTA) Staff: Paul Paeglis, Executive Director; Trisha Good, CFO/CIO; Dave Kemp, Director of Customer Service & Operations; Beverly Martin, Director of Marketing; Judy Cunningham, Community Outreach/PR Manager; Brent Templeton, Interim CTO, Elaine Kinney, HR/Administrative Professional and Elizabeth Yassenoff, In-House Counsel.

Others Present: David Lindberg, Wilshire; Craig Svendsen, NEPC; Alan Perry, Milliman.

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.

Mr. Paeglis explained that with Executive Committee Chairman Chas Wither's absence, the Board would need to nominate a Presiding Chair. Mr. Charles See motioned to nominate Dr. Matthew Filipic and Ms. Ann Womer Benjamin seconded the motion. Roll was taken and the motion passed unanimously with Dr. Filipic abstaining.

APPROVAL OF MINUTES

Dr. Filipic asked for any questions or comments on the June 18, 2014 minutes and without any, asked for a motion to approve the minutes. Mr. See made a motion to approve. The motion was seconded by Representative Stinziano and carried unanimously.

GUARANTEED SAVINGS FUND ACTUARIAL VALUATION REVIEW

Mr. Alan Perry reported on the preliminary draft results of the actuarial review of the Guaranteed Savings Fund (GSF). Mr. Perry referred to the document in the Board notebook and reviewed the purpose of the evaluation. He stated that Milliman is comfortable with the two assumptions of 6.0% tuition growth and 5.0% investment returns set by the Board and feels these are reasonable. He also explained the process of the evaluation whereby tuition liabilities are projected based on forecasted tuition growth, forecasted redemptions and the investment return assumptions. As of June 30, 2014 the GSF has an actuarial reserve of \$42.2M. The GSF is currently 110% funded, compared to last year's funding level of 102% and 90% five years ago. He reviewed historical data of the fund and stated that the surplus growth is coming from the current strong investment returns. Dr. Filipic commented that he believes the valuation contains an element of conservatism, which is good and that the numbers are both very good and very encouraging. He asked for any comments or questions, and with none called for a motion to approve Resolution FY 15-01, the Actuarial Valuation. Mr. See motioned to approve and Ms. Womer Benjamin seconded. The motion carried unanimously.

GUARANTEED SAVINGS PLAN INVESTMENT UPDATE

Mr. Craig Svendsen referred to the NEPC report included in the Board notebook. He stated the quarter ended with strong returns, with almost all asset classes outperforming their benchmarks. A strong equity market and further declining interest rates contributed to the strong performance. He reviewed the asset allocation, noting that cash is temporarily outside of policy range in order to meet the upcoming payout requests. The total fund performance is lower than expected and this can be attributed to one manager, Thornburg. Thornburg provides actively managed exposure for international equity. NEPC does not have confidence in the effective management at Thornburg going forward. Mr. Svendsen provided details of team responsibilities and personnel changes within Thornburg. NEPC is recommending all clients terminate their relationship with Thornburg. After consideration of several options, NEPC and OTTA staff are recommending the State Street Index Fund (MSCI ACWI ex US) which will round out the equity exposure. Dr. Filipic asked for any questions and discussion ensued. He then called for a motion to approve Resolution FY 15-02, terminating Thornburg Investment Management, Inc. and appointing State Street Global Advisors. Representative Stinziano made the motion and Mr. See seconded. The motion carried unanimously.

Mr. Svendsen continued with a review of the total fund asset allocation. Total equities are a little below the target allocation and will need to be rebalanced to stay within the current policy. He reviewed the asset allocation history and noted that the return expectation has become more conservative over time in order to protect the assets from a downturn in the market. Mr. Svendsen covered details of several funds' returns and stated that gains in the market are important to the surplus position of the plan. The fund is in a very good position as the total market value of the GSF assets are still near 2008 levels, although no new money is going into the fund and withdrawals are flowing out.

Mr. Paeglis referred Board members to the memo in the Board notebook outlining the request for a one-time transfer of assets from the Reserve Fund of the Guaranteed Savings Plan to the Trust Fund of the Guaranteed Savings Plan. He summarized the details of the asset allocation issue and the potential options to address and correct the situation. With the advice of Mr. Svendsen and Mr. Perry, staff is recommending a one-time transfer as the most efficient correction. The target completion date for the transfer and rebalancing to occur is this fall. Dr. Filipic stated he agrees with this action as it is needed to stay compliant with the asset allocation policy. Mr. See stated he wants to ensure the Board is comfortable with the target amount in the Reserve Fund and discussion ensued. Dr. Filipic then called for a motion to approve Resolution FY 15-03, a one-time transfer from the Reserve fund to the Trust Fund. Mr. See made the motion. Ms. Womer Benjamin seconded and the motion carried unanimously.

EXECUTIVE DIRECTOR UPDATE

Mr. Paeglis stated there is a voting item included in his update related to the agency rules in the Ohio Administrative Code. Staff completed a required review of the rules and recommended changes to several rules, all of which are included in the Board notebook. He provided details of the changes in the rules related to investments and asked for any questions. Mr. See asked if there was a marketing campaign to alert account holders to the change related to refunds in Rule 3334-1-09. Representative Stinziano asked if it is standard practice of other Boards and Commissions to post notices on the Statehouse bulletin board (Rule 3334-1-02). Discussion ensued and with no further questions, Dr. Filipic asked for a motion to approve Resolution FY 15-04, filing of the rules as presented. Ms. Womer Benjamin made the motion and Mr. See seconded. The motion passed unanimously.

Mr. Paeglis continued with his update, stating that in the last year the agency has completed its conversion with Ascensus (formerly UPromise) and has renewed the contract with BlackRock. Both of these events resulted in changes to the overall fee structure. He provided details of fees, pointing out that the Direct Plan is a very low cost plan, ranked 7th out of 50 national plans. It is in a strong position with low fees and diverse funds. Overall costs for the Advisor Sold Plan have been brought down through negotiations with BlackRock. The Plan moved from a ranking of 25th out of 32 in July 2013, to 18th out of 32 in July 2014. CollegeAdvantage contributions increased in the 4th quarter by 3%. The net flow of 3.2% is slightly better than the national trend of 2.1% net flow. Also, CollegeAdvantage has reached a milestone in moving up to the 8th largest sponsor of a Direct Plan, surpassing Iowa and continuing to narrow the gap on Michigan. We experienced a 5% increase in funded new accounts for the time period January through August.

Mr. Paeglis reported that members of the management team met with Mr. Ben Mendelson, the new Fifth Third executive assigned to CollegeAdvantage. It was a very productive meeting. Mr. Mendelson stated that they will be looking at 529 CD's differently from other CD's and may have opportunities to offer higher rates for the longer term CDs. And they will be looking for more promotional opportunities at their branch offices for CollegeAdvantage.

Mr. Paeglis announced that Mr. Steve Brown, OTTA Chief Technology Officer has resigned from the agency and introduced Mr. Brent Templeton as the Interim Chief Technology Officer. Mr. Paeglis then asked Ms. Good to provide an update on the biennial budget process and audits.

Ms. Good reported the biennial budget for fiscal year (FY) 16 and FY17 is due to the Board of Regents (OBR) in early October. The OTTA FY16 budget is estimated to be \$9.1 M, which is a decrease from the \$9.4M in FY15. The FY17 budget is estimated to be \$9.15M. OBR will incorporate OTTA's budget with theirs and deliver it to the State by October 31st. The Governor's budget is due to the General Assembly in February 2015.

The FY14 audit is currently in progress. The audits of Fifth Third Savings and CD, Vanguard, PIMCO and GE options in the Direct Plan are complete with no issues reported. The BlackRock audit is being finalized and should be submitted shortly. Schneider Downs and Co. will prepare the final overall audit report, which is due to the State's Auditor's office on September 30th. Mr. Paeglis thanked Ms. Good and asked for any questions or comments. There were none.

NEW BUSINESS

Dr. Filipic asked for any new business to be brought before the Board, any questions or comments. There were none.

ADJOURN:

Representative Stinziano motioned to adjourn the meeting and Mr. See seconded the motion. The meeting was adjourned at 12:05 pm.

Signed by: Matthew V Filipic
Dr. Matthew Filipic
Presiding Chairman, December 17, 2014 meeting

Witnessed by: Paul Paeglis
Mr. Paul Paeglis
Executive Director

Date: December 17, 2014

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