

**Minutes of the Ohio Tuition Trust Authority**

BOARD MEETING – December 17, 2014

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

**CALL TO ORDER: 10:00 am**

Mr. Paul Paeglis welcomed the new Board members and asked each attendee to introduce themselves for the benefit of the new Board members. Ms. Elaine Kinney took roll and announced that a quorum was present.

**BOARD MEMBERS PRESENT:**

**Executive Board:** Ann Womer Benjamin; Dr. Matthew Filipic, Dave Kosanovic, Vineeta Jindal, Eric Braun and Charles See (Chancellor's designee).

**Legislative Board:** Senator Kevin Bacon.

**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; Elaine Kinney, HR/Administrative Professional and Elizabeth Yassenoff, In-House Counsel.

**Others Present:** David Lindberg, Wilshire; Craig Svendsen, NEPC; Michael McPhillips, Office of Attorney General.

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 the vacancy of the Executive Committee Chairman, the Board would need to nominate a Presiding Chair. Ms. Ann Womer Benjamin moved to nominate Dr. Matthew Filipic and Mr. Dave Kosanovic 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 September 25, 2014 minutes and without any, asked for a motion to approve the minutes. Mr. Charles See made a motion to approve. The motion was seconded by Ms. Benjamin and carried unanimously.

**EXECUTIVE DIRECTOR UPDATE**

Mr. Paeglis referred to his letter included in the Board notebook and stated that as of the end of September the Direct Plan had assets of \$3.9B and 249,000 customers and the Advisor Plan had assets of \$4.6B and 346,000 customers. The most important goal for the agency is to attract dollars into the plan. The Direct Plan experienced contributions of \$98M for the quarter, which is a 10% increase over the 3rd quarter in FY '14. The Advisor Plan had contributions of \$107M, which is a 15% increase over the same quarter of FY '14. Total contributions during the 3<sup>rd</sup> quarter were \$205.4M, which is a 13% increase over FY '14. A total of \$926M new money came into the plan over the last 12 months. He reviewed the details of distributions out of the plans, noting that through customer self-reporting we know that over 90% of the withdrawals are used for qualified education expenses. He said it is important to note that significantly more withdrawals come from the Advisor Plan because it has been established for a longer period of time. These data patterns are consistent with industry data provided by the College Savings Foundation (CSF) and the College Savings Plan Network (CSPN). He also noted that 75% of Direct Plan customers and 35% of Advisor Plan customers are Ohioans.

Mr. Paeglis continued his update stating Ohio is the 5<sup>th</sup> largest state sponsored 529 plan with total assets at nearly \$8.6B, noting that the data does not include pre-paid plans. Ohio's asset growth rate of 12.4% is close to the national average of 13.5%. The Direct Plan is the 7<sup>th</sup> largest plan of 59 state plans, which is an improvement from 10<sup>th</sup> at the end of 2012. In two years, the Direct Plan has surpassed Iowa, Maryland and Michigan. The Advisor Plan is the 4<sup>th</sup> largest in the nation, with Virginia in the top spot with 45% of all Advisor assets. He asked for any questions and with none continued his update.

Mr. Paeglis explained that he and Trisha Good have asked David Lindberg of Wilshire to conduct a thorough review of fund options in the Direct Plan with the goal of improving the line-up options. He is waiting for final recommendations from Wilshire and hopes to present the outcome to the Board at the February meeting. The Direct line-up is predominantly Vanguard options and they want to consider other available options to optimize opportunities for customers. Mr. Charles See asked if this was due to a status check or did the review come about due to some type of action. Mr. Paeglis responded that a review needs to be on an annual basis and the national trend is costs are coming down, therefore they want to look at the breadth and depth of the options in order to offer the best alignment.

Mr. Paeglis explained the Morningstar annual rating of the largest 529 college savings plans and reviewed the ratings scale. He, Ms. Good, Mr. Lindberg and representatives from BlackRock traveled to Morningstar in September to present information on the CollegeAdvantage Program. Mr. Paeglis is pleased with the Silver rating for the Direct Plan, noting that 10 out of the 15 ratings changes Morningstar made this year were downgrades. The review of the fund options is one component of the efforts to increase the Morningstar rating. In addition, the Advisor Plan maintained its rating of Neutral, even though it was hoped to achieve a higher rating due to the seven year contract extension removing uncertainty, and the reduction of program management fees, OTTA administrative fees, and sales loads for certain share classes. Results of customer surveys show that customers are not familiar with Morningstar and the importance of college savings plan ratings is low for customers.

The disability community has successfully lobbied for the Achieving a Better Life Experience Act (ABLE), which has been passed by the U.S. House and Senate and is expected to be signed by the President before year end. The Act adds section 529A to the Internal Revenue Code and enables individuals and families to save for long-term disability needs in tax-advantaged accounts. Each state will have the option of setting up their own plan or contracting with another state. States may be looking to their 529 college savings programs for assistance with implementation. Senator Bacon offered his expertise and assistance and asked to be included in future discussions. Mr. See asked if we knew if the Treasurer's Office or the Ohio Department of Developmental Disabilities (ODODD) is tracking this initiative. Ms. Yassenoff replied that we are aware that the Governor's office and ODODD are tracking the act and have reached out to let them know our agency is available to work with them if needed.

Mr. Paeglis also wanted to make the Board aware of a topic that was brought up at the National Association of State Treasurer's conference held early this month. The 529 platform is being looked at by Federal legislators to potentially solve other public policy investment plan needs. Retirement accounts are one of those perceived needs for people who don't have a retirement plan through their employer. Potentially these state-provided retirement plans may be modeled after 529 college savings plans. Mr. Paeglis asked for any questions and without any, asked Mr. Lindberg to provide his update.

## **DIRECT AND ADVISOR SOLD PLAN UPDATES**

Mr. Lindberg referred to the Wilshire report included in the Board notebook and began with an overview of the U.S. Equity Markets. He stated that the last two weeks have certainly been a 'wild ride' for the markets as has the whole year. The end of November year-to-date return is a positive 7% for the equity markets. He reviewed details on a variety of stock segments, stating the lower rated securities have been outperforming and all segments have reported strong gains. Mr. Lindberg pointed out that rates in the fixed income markets have continued to fall and it is a low rate environment. In the Direct Sold fund performance, 80% of the age based options ranked in the top half of their respective peer universes for the quarter. And over five years, 50% of the age based options have ranked in the top half of their respective peer universes. He reviewed details of individual fund returns. Mr. Paeglis pointed out that every fund has had positive returns over one, three and five years, which means CollegeAdvantage customers are seeing their accounts grow regardless of which investment options they have chosen.

Moving on to investment manager analysis, Mr. Lindberg stated PIMCO Total Return is on 'watch' status due to significant changes in the portfolio management team. They will continue to follow the fund closely. Mr. Paeglis asked how the fund has performed in the 4<sup>th</sup> quarter and Mr. Lindberg responded that in October the fund underperformed the benchmark however in November they are ahead of the benchmark. He stated that outflows have been a small percentage of the total dollars in the fund. GE Institutional International Equity Option continues on 'watch' status and has experienced a good quarter. All the remaining funds are in active status with the no action required.

Mr. Lindberg reviewed highlights of the Age-Based funds and reported on individual underlying fund returns. Mr. Paeglis asked what would need to change in order for active managers to outperform the benchmarks. Mr. Lindberg responded that the markets would have to shift away from low quality, high risk options and would need to experience a shift back to fundamentals. He asked for any other questions and Dr. Filipic asked what affect the treasury returns had on bond yields and discussion ensued.

Mr. Lindberg reported that he, Mr. Paeglis and Ms. Good completed a due diligence visit with BlackRock in early December. The Advisor Sold options have experienced better performance this quarter, with all 15 Age-Based options ranking in the top half of their peer universe. Over the five year period 20% of age-based options and 50% of the risk based and individual options have ranked in the top half of their respective peer universes. A few bond funds are performing below the median but these represent a small segment in terms of assets in the CollegeAdvantage Plan. The BlackRock International fund has struggled due to a variety of things. There are no funds under watch status in this platform. Mr. See asked what would precipitate a watch status and Mr. Lindberg referred to the Manager Analysis chart. He stated that Wilshire looks at fund performance and any change in management of the fund. The report continued with a review of individual funds and Mr. Lindberg noted the addition of two funds, the Multi-Asset Income option and the Strategic Income Opportunity option. These options will be included in the report once they have a full quarter of performance. Overall it has been a better quarter for most of the BlackRock funds. He asked for any questions on either of the plans and with none, Dr. Filipic thanked Mr. Lindberg for his report and called upon Mr. Svendsen of NEPC.

## **GUARANTEED SAVINGS PLAN INVESTMENT UPDATE**

Mr. Svendsen reported the Guaranteed Savings Plan total assets are \$432.3M and it is 110% funded. They expect to see \$65M flow out this year, which is down 1.2% from the previous quarter. With the approval at the last Board meeting, \$83.5M was transferred from the BlackRock Reserve to the BlackRock Trust at the end of September. Thornburg International Equity was terminated and replaced with the SSgA MSCI ACWI ex US Index Fund at the end of October. The transition went very smoothly. NEPC will continue due diligence monitoring of the fund managers and there is no need to take any action at today's meeting. Details of several management changes were presented as outlined in the report.

Mr. Svendsen reviewed the asset allocation of the plan versus the policy targets and stated in November they were almost directly on target. The objective is to earn a 5% return with minimal risk. The asset allocation will continue to become more conservative as the fund is drawn down. He provided an overview of the total fund performance, noting that Thornburg International had a very good quarter. The market value history was reviewed and Mr. Svendsen commented that even with withdrawals the plan is well funded. The CollegeAdvantage banking products continue to offer attractive premium and savings rates, beating comparable product rates. Mr. Svendsen asked for questions and 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.

With this being Dr. Filipic's last meeting, Mr. Paeglis thanked him for his contributions and insights to the board over two different terms. He appreciated Dr. Filipic's guidance and foresight he provided and wished him the best of luck. Dr. Filipic commented on the progress of the program and stated we have come a very long way. Numerous other members also thanked Dr. Filipic.

**ADJOURN:**

Mr. See moved to adjourn the meeting and Ms. Ann Womer Benjamin seconded the motion. The meeting was adjourned at 12:00 pm.

Signed by:   
Mr. Eric Braun  
Executive Committee Chairman

Witnessed by:   
Mr. Paul Paeglis  
Executive Director

Date: 2-19-15

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