

Minutes of the Ohio Tuition Trust Authority

Board Meeting – Thursday, May 18, 2017

77 S. High Street, 31st Floor, East B Conference Room, Columbus, Ohio 43215

CALL TO ORDER: 9:38 a.m.

Ms. Amy Lyle took roll and Chairman Eric Braun announced that a quorum was present.

BOARD MEMBERS PRESENT:

Executive Investment Board Members: Eric Braun, Charles See, Ann Womer Benjamin, James Benson, and David Kosanovic.

Legislative Investment Board Members: Senator Stephanie Kunze, and Senator Sandra Williams.

Ohio Tuition Trust Authority (OTTA) Staff: Tim Gorrell, Executive Director; Trisha Good, CFO/CIO; Ben Gibbons, Director of Marketing; Dave Kemp, Director of Customer Service and Operations; Judy Cunningham, PR Manager; Michelle Chavanne, In-House Counsel; and Amy Lyle, Communication Coordinator.

Others present: Craig Svendsen, NEPC; Stephen DiGirolomo, Wilshire; Mary Ryan, Vanguard; Kim Stockton, Vanguard; Tom Morgan, BlackRock; John Park, BlackRock; Ben James, assistant to Representative Mike Duffey; and Lisa Critser, Office of 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

Mr. Eric Braun asked for any questions or comments on the full Investment Board minutes of the February 16, 2017 meeting. There were no questions or comments on the full Investment Board minutes and Mr. Braun asked for a motion to approve the minutes. Mr. David Kosanovic made a motion to approve. The motion was seconded by Mr. Charles See. Mayor Ann Womer Benjamin abstained. The remaining Investment Board members voted affirmatively and the motion passed.

EXECUTIVE DIRECTOR UPDATE

OTTA Executive Director Tim Gorrell welcomed the Investment Board members. Mr. Gorrell started the meeting by sharing that OTTA's total Assets Under Management (AUM) passed the \$10 billion mark.

Mr. Gorrell continued with OTTA has finalized and adopted a Professional Service Policy. Previously, at the February 16, 2017, meeting, the Investment Board agreed that OTTA should move forward and renegotiate five-year contracts with NEPC and Milliman, Inc. In renegotiations with NEPC, the organization reduced their annual fee. If approved by the Investment Board, the contracts will take effect July 1, 2017, and will run through June 30,

2022. There is an option to renew the contract with each organization one time after which the contracts must be re-bid.

Mr. Braun asked if there were any questions; discussion ensued. Afterwards, Mr. Braun asked for a motion to approve Resolution FY17-06. Mr. Benson made a motion to approve and Mayor Womer Benjamin seconded. A voice call was held and the motion passed.

Mr. Gorrell next provided details on the Request For Proposal (RFP) process to select an investment-consulting firm to provide professional consulting services for the Direct and the Advisor Plans. Five firms had responded to the RFP and were reviewed. Two proposals were eliminated from further consideration due to 1) lack of 529 experience and 2) overall cost. The remaining three proposals were further evaluated based on the RFP criteria. After careful consideration, OTTA recommends that Wilshire Consulting be retained as its investment-consulting firm. If approved by the Investment Board, the contract will take effect July 1, 2017, and will run through June 30, 2022. There is an option to renew the contract one time after which contract must be re-bid.

Mr. Braun asked if there were any questions; discussion ensued. Afterwards, Mr. Braun called for a motion to approve Resolution FY17-07. Mr. Kosanovic made a motion to approve and Senator Sandra Williams seconded. A voice call was held and the motion passed.

Mr. Gorrell then discussed the Guaranteed Savings Plan Actuarial Valuation Assumptions. Mr. Gorrell presented a memo to the board that recommended that for the fall of 2017, to set the Tuition Inflation Assumption at an amount equal to the maximum amount of tuition and mandatory fee increases permitted by the State of Ohio biennial budget, after being signed into law by Governor John Kasich. For the following school years, it was recommended that Tuition Inflation Assumption be set at 5.5%. Additionally, OTTA suggested that the Investment Return Assumption be set at 4.5%. Mr. Gorrell shared that after the state budget is officially voted upon, OTTA may need to come back to the August 2017 Investment Board meeting with new percentages. Mr. Braun asked if there were any concerns for OTTA if there are changes to the tuition funding model in the proposed state budget. Ms. Trisha Good assured that the agency will be fine and if needed, the Investment Board can revisit the Tuition Inflation Assumption and Investment Return Assumption numbers at the August 2017 meeting. Mr. Braun asked if there were any further questions; discussion ensued.

Afterwards, Mr. Braun called for a motion to approve Resolution FY17-05. Mr. See made a motion to approve and Senator Stephanie Kunze seconded. A voice call was held and the motion passed.

GUARANTEED SAVINGS PLAN INVESTMENT UPDATE

Mr. Craig Svendsen of NEPC reported on the various investment of the Guaranteed Savings Plan (GSP). The plan assets are at \$306.7 million. The plan returned 3.5% during the quarter and 8.1% over the last one year period. The Fiscal Year To Date performance is 6.0%, which is ahead of the 4.5% expected return.

Mr. Svendsen reported that the new adjusted target allocation, which was approved for adoption by the Investment Board at the February 16, 2017, meeting with Resolution FY17-4, has reduced a portion of the downside risk to funded status. Originally, the asset allocation included 21% equity; it is now at 12%. The 9% in equity exposure was moved into core fixed income. Mr. Svendsen proceeded to review the GSP Investment Policy. With the adoption of new asset allocation, the changes require OTTA to update the GSP Investment Policy. Mr. Braun questioned the removal of the specific "time" language. Ms. Trisha Good responded that the new language gives the Investment Board more flexibility with NEPC and the GSP actuary, Milliman Inc., and so can regularly evaluate the GSP fund and adapt quickly to potential changes in de-risking strategy. Mr. See asked about the liquidation strategy for the GSP. Mr. Svendsen stated the GSP is 113% funded and believes that the strong performance

of the asset allocation will protect the surplus over time so it can run the course with the current funding. Ms. Good confirmed that as of March 31, 2017, Milliman, Inc. estimated that the GSP was 119% funded and with the current WAT, it has a 131% funded status on a cash basis.

After the discussion, Mr. Braun called for a motion to approve Resolution FY17-08. Mr. Kosanovic made a motion to approve and Mr. Benson seconded. A voice call was held and the motion passed.

Moving forward on the agenda, Mr. Svendsen noted that Amy Schioldager, Global Head of Beta Strategies at BlackRock, retired in early 2017. Mark Wiedman, who has worked at BlackRock since 2004, now oversees both the iShares and beta strategies. Mr. Svendsen also covered the performance of the individual managers.

Mr. Svendsen updated the Investment Board on Fifth Third Rate. The CollegeAdvantage savings account and CD rates remain unchanged during the quarter. It has been determined that Fifth Third offers a competitive interest rate that provides a premium to CollegeAdvantage account owners over similar bank accounts.

ADVISOR PLAN

Mr. Tom Morgan of BlackRock presented to the Investment Board their proposal to change two of the investment options in CollegeAdvantage 529 Advisor Plan. Mr. Morgan also introduced Mr. Ti Kazaryan, Product Strategy Director for BlackRock, who joined the discussion by phone.

Mr. Kazaryan explained the BlackRock's reasoning for the proposed changes to the investment options. Additionally, he shared that these proposed changes will potentially bring steady results with lower risk and lower fees.

First, the underlying fund of the BlackRock Large Cap Core Fund will change its investment strategy and be renamed the BlackRock Advantage Large Cap Core Fund effective on or about June 12, 2017. With this change, the gross expense ratio will remain the same at 0.88%, but BlackRock has contractually agreed to waive expenses to a net level of 0.48%, resulting in an estimated 40 basis point reduction in net expenses for investors.

Second, the underlying fund of BlackRock International Opportunity Fund will change its investment strategy and be renamed the BlackRock Advantage International Option. With this change, the gross expense ratio of the Advantage International Fund is currently 1.21%, but BlackRock has contractually agreed to waive expenses to a net level of 0.64%, effective June 12, 2017. The proposed change will result in an estimated 43 basis point reduction in net expense ratio for investors.

Mr. Steve DiGirolomo of Wilshire, OTTA's investment consulting firm, said the firm agrees with BlackRock recommended investment changes.

Mr. Braun asked if there were any further questions; discussion ensued. Afterwards, Mr. Braun called for a motion to approve Resolution FY17-09. Mr. Kosanovic made a motion to approve and Mayor Womer Benjamin seconded. A voice call was held and the motion passed.

GLIDEPATH DISCUSSION

Mr. John Park of BlackRock started the discussion of glidepaths for the age-based investment options in CollegeAdvantage Advisor 529 Plans. Mr. Park also introduced Mr. Vincent Cocula, Vice President of Multi-Asset Strategy LifePath at BlackRock, who joined the discussion by phone.

Mr. Cocula explained the organization's rationales for the proposed changes to the current three different risk-based age based options , which each include five age bands in the Advisor Plan, to adopt a new one progressive target date glidepath structure. He suggested that with smoothing out the current age-based bands in the products, there would be less risk to investors as there will be no large shifts in the age brackets, de-risking the plan gradually and minimizing the effect of market volatility as the 529 beneficiary nears college. Under the new glide path proposal, the risk levels and asset allocations change gradually from one quarter to the next. The current age-based investment products would become post-secondary enrollment target date so the fund itself will change over time based on the approaching college start date, rather based on the beneficiary's age.

An additional reason to consider transitioning the Advisor Plan to a progressive target date glide path structure according to Mr. Cocula is that Morningstar prefers smoother glide paths as stated in their 2015 and 2016 529-industry commentary. Additionally, four of the six largest advisor-sold plans nationwide have transitioned to the target-year-to-enrollment structure. Mr. Cocula added that if the Investment Board agreed to this change, then CollegeAdvantage Advisor 529 plan would be the fifth of the nation's largest advisor plans to adopt the smoother glide paths. Mr. Cocula added that the conversion to a target-year-to-enrollment glide path would be easy for BlackRock as it is the prevalent structure within their target-date retirement plans.

Mr. Braun asked Mr. DiGirolomo for Wilshire's input. Mr. DiGirolomo said Wilshire supports BlackRock's decision to move to the progressive target date structure for the Advisor-Sold glide path as it smooths out the risk reduction structure compared to current step-down option.

Mr. Braun asked if there were any further questions; a discussion ensued. Afterwards, Mr. See asked if the Investment Board could listen to the glide path analysis from Vanguard on their Direct Plan age-based options and from Wilshire on the Direct Plan's Advantage Age-Based options before voting on the BlackRock proposal. Mr. Braun concurred. Ms. Mary Ryan of Vanguard agreed to speak next.

Ms. Ryan introduced Ms. Kimberly Stockton, an investment analyst from Vanguard's Investment Strategy Group, to explain Vanguard's alternative glide path option. Ms. Stockton shared that Vanguard's alternative glide path research showed that the risk aversion toward large glide path steps has grown, people are saving earlier extending the college saving time horizon, and their current clientele are opting to elect for a higher risk tolerance. Ms. Stockton also stated that in Vanguard's analysis of stepped and smoothed glide paths, they saw little difference in risk and return between the two paths options. She then explained that Vanguard's operational efficiencies and portfolio accounting processes have lowered the cost to facilitate smaller glide path steps.

Currently, Vanguard has six portfolios used across three risk options. Their new alternative glide path would use 12 portfolios across three risk options, increasing the number of glide path steps, and reducing the risk process for investor needing the 529 plan funds soon. In addition, the alternative glide path's risk/reward balance will be more aligned with current investor's risk tolerance.

Mr. Braun asked Mr. DiGirolomo for Wilshire's analysis of Vanguard's alternative glide path option. Mr. DiGirolomo said Wilshire believes Vanguard's step down approach with additional age bands will help minimize market risk as investor's transition through each age band. Although Wilshire believes an enrollment date-based path is more progressive and effective in reducing risk, the step down approach still maintains merit and will function better with the inclusion of additional age bands.

Mr. Braun asked if there were any further questions; a discussion ensued.

Afterwards, Mr. DiGirolomo was asked to speak about the Advantage Age-Based Options (AABO). Wilshire serves as the discretionary manager of the AABO's Asset Allocation. Mr. DiGirolomo said Wilshire recommends changing these investment options to find a more efficient method of reducing risk levels as the investment moves through the age bands and de-risk the investment as the beneficiary draws closer to needing the 529 funds.

Wilshire developed two options. The first option increases the number of age bands with the current glide path, reducing the allocation shifts between equities, fixed income, and cash, across the current age bands. The second option is to shift to an enrollment date-based progressive glide path.

Mr. DiGirolomo shared that Wilshire prefers adopting the second option as it potentially smooths out transitions between asset classes as an account moves towards its enrollment date. Additionally, this option will also eliminate the need to "string" together performance across age bands, simplifies performance reporting, and gives the account owner the ability to choose a target date suited to their time-frame need and risk tolerance.

Mr. DiGirolomo concluded that transitioning to a new glide path approach would have some challenges so client communication and education would be key. Wilshire will present the recommended progressive glidepath based on the enrollment date at the Investment Board's meeting in August 2017. Mr. Braun asked if there were any further questions; a discussion ensued.

Mr. Braun then circled back to the BlackRock's Advisor Age-Based glidepath proposal. He called for a motion by the Investment Board to approve FY17-10. Mr. Benson made the motion to approve and Mr. Kosanovic seconded. A voice call was held and the motion passed.

QUARTERLY FINANCIAL UPDATE

Ms. Good recapped the quarterly financial update. She shared that Ohio is the nation's sixth largest sponsor of 529 plans, with AUM as of March 31, 2017, at \$10.1 billion, which does not include the \$234 million in customer value in the Guaranteed Plan. Overall, the AUM specific to Ohio's program increased 4.6% from the previous quarter. The year-over-year AUM change was 11.2%.

Ms. Good announced that Ohio remains the nation's seventh largest sponsor of a Direct Plan, with an AUM of \$5.13 billion. This is an increase of 5.8% during the quarter. The year-over-year AUM change was 15.0%. This is also the first time that the Direct Plan has more AUM than the Advisor Plan.

Ms. Good further announced that Ohio remains the nation's fourth largest sponsor of an Advisor Plan, with AUM as of March 31, 2017, at \$5.0 billion. Ohio's Advisor increased by 3.5% during the quarter. The year-over-year AUM change in the Advisor Plan was 7.6%.

Ms. Good then discussed the monthly contributions and distributions for the Direct and Advisor Plans. On a year-over-year basis, there was an 8.2% increase in contributions to the Direct Plan and 1.6% increase in the Advisor Plan. Combining the Direct and Advisor Plans, the percentage change in contributions was 5.2% year-over-year.

On a year-over-year basis, there was a 14.9% increase in distributions from the Direct Plan and 12.9% increase in the Advisor Plan. Combining the Direct and Advisor Plans, the percentage change in distribution was 13.7% year-over-year. These redemptions are in line with expectations since it is the payout season in the first and second quarters of the Fiscal Year.

Ms. Good proceeded to discuss the Guaranteed Plan. The market value of the Guaranteed Plan portfolio as of March 31, 2017, was \$306.7 million, which exceeds the tuition cash liability of the program of \$234.4 million. This means the Guaranteed Plan portfolio has a 131%

funded status on cash basis. The actuarial present value of the Guaranteed Plan is \$257.0 million in obligations and is 119% funded as of March 31, 2017. As it was passed earlier in the Investment Board meeting, the fall 2017 tuition inflation will be set to an amount equal to the maximum amount of tuition and mandatory fee increase by the State of Ohio biennial budget; and thereafter the tuition inflation was set at 5.5%. For FY17, the investment rate of return was set at 4.5%.

Mr. DiGirolomo then discussed Wilshire's Executive Summary of Investments for the Direct and Advisor Plans. Starting with the Direct Plan, when compared to their peer universe, 40% of the age-based options ranked in the top half for the quarter ending March 31, 2017. Mr. DiGirolomo also said that the more aggressive age-based fund options performed the best out in the risk categories in the past quarter. For the Advisor Plan, when compared to their peer universe, 47% of the age-based options ranked in the top half for the quarter ending March 31, 2017. Like the Direct Plan, the more aggressive Advisor Plan age-based fund options performed best in the risk categories in the past quarter. Mr. DiGirolomo provided an overview of the performance of individual funds in the Direct and Advisor Plans.

MARKETING UPDATE

Mr. Ben Gibbons, who has formally assumed the role of the Director of Marketing, summarized the department's report. The Direct Plan Funded New Enrollments saw a 10% growth rate in the first quarter of 2017. The goal is a 5%. Mr. Gibbons attributed some of the increase to the change of the marketing message during the tax campaign in March.

Mr. Gibbons informed the board that a new 529 Day/Graduation campaign would be starting May 22 and would run through June 11. Tied to the campaign is a giveaway of five \$529 college savings awards.

Mr. Gibbons also shared that on the social media front, Ohio's 529 Plan has the fourth largest following on Facebook amongst the state plans and the sixth largest following on Twitter amongst the state plans.

NEW BUSINESS

Mr. Braun asked if there was any new business to discuss. The Investment Board had no new business.

PUBLIC PARTICIPATION

Mr. Braun asked if there was any public participation. There was none.

ADJOURN

Mr. Braun asked for a motion to adjourn the meeting. Mr. Kosanovic made the motion and Mr. See seconded the motion. Without objection, the meeting was adjourned at 12:04 p.m.

Signed by:



Print name: ERIC A. BRAUN

Date: MAY 17, 2017