

Minutes of the Ohio Tuition Trust Authority

Board Meeting – February 16, 2017

77 S. High Street, 31st Floor, West B&C Conference Rooms, Columbus, Ohio 43215

CALL TO ORDER: 10:10 a.m.

Ms. Hannah Myers took roll and announced that a quorum was present.

BOARD MEMBERS PRESENT:

Executive Board Members: Charles See, David Kosanovic, Eric Braun.

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

Ohio Tuition Trust Authority (OTTA) Staff: Tim Gorrell, Executive Director; Jessica Voltolini, In-House Counsel; Trisha Good, CFO/CIO; Ben Gibbons, Interim Director of Marketing; Dave Kemp, Director of Customer Service and Operations; Kim Fisher, Human Resource Specialist; Judy Cunningham, PR Manager; Hannah Myers, Administrative Assistant.

Others Present: Craig Svendsen, NEPC; Stephen DiGirolamo, Wilshire; Michael McPhillips and Lisa Critser, Office of Ohio Attorney General; Alison Cozad, Senator Stephanie Kunze's LSC Fellow.

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.

APPROVAL OF MINUTES

Mr. Eric Braun asked for any questions or comments on the full Board minutes of the November 17th meeting. There were no questions or comments on the full Board minutes and Mr. Braun asked for a motion to approve the minutes. Senator Sandra Williams made a motion to approve. The motion was seconded by Mr. David Kosanovic. The remaining board members voted affirmatively and the motion passed.

GUARANTEED SAVINGS PLAN INVESTMENT UPDATE

Mr. Craig Svendsen reported on the various investments of the Guaranteed Savings Plan. The plan assets are at \$304.4 million. The plan returned -0.5% during the quarter, 6.7% over the last year and 2.4% since July 2016.

Mr. Svendsen went over changes and announcements within NEPC. GMO named the new CEO of the firm as Mr. Scott Hayward. GMO also hired Mr. Andy Martin as Head of Investments. He said that NEPC recommends the current due diligence status of Hold to be maintained for now. Seix announced that Virtus Investment Partners will be acquiring RidgeWorth Investments from Lightyear Capital LLC for approximately \$472 million. PIMCO added CIO Mr. Chris Brightman as co-PM alongside Mr. Rob Arnott. NEPC is comfortable with the changes at both Seix and PIMCO.

Mr. Svendsen reviewed several asset allocation mixes, again emphasizing that the plan returned -0.5% outperforming the allocation index for the quarter of -1.2% by 70 basis points. U.S. Equities are up 4.2% for the quarter, and Non-U.S. Equities are down -1.3%, both matching the benchmarks. The specialty Fixed Income managers, Western and Seix, both outperformed their respective benchmarks during the quarter, while Core Fixed Income, provided by BlackRock, matched the benchmark. GMO underperformed their benchmark during the quarter by 50 basis points while PIMCO outperformed by 120 basis points in the quarter. Mr. Svendsen reviewed the return and volatility of the portfolio over five years, stating that the annualized return is 4.51%. Mr. Svendsen then reviewed the banking product rates as of January 31st,

concluding that 5/3 is maintaining competitive rates at .5% for one year up to 2% for five years, exceeding competitors by 1.06% at the five year mark.

Mr. Braun asked for a motion to approve Resolution 17-4, which would approve a new target asset allocation to reduce a portion of the downside risk to funded status while still allowing the fund to meet the 4.5% return expectation. Mr. Kosanovic made a motion to approve. Representative Duffey seconded the motion. Ms. Myers took role and the motion passed 5-0.

EXECUTIVE DIRECTOR UPDATE

Ms. Trisha Good and Ms. Jessica Voltolini reported on the Investment and Actuarial Consulting Contracts. Ms. Good did an investment policy overview. Ms. Voltolini then reviewed the current process OTTA has in place to approve contracts with Investment and Actuarial Consultants. Ms. Good followed that up with the responsibilities of the Investment and Actuarial Consultants. Ms. Voltolini reviewed with the Board that OTTA was moving forward with approving a Professional Consulting Policy that would require OTTA to rebid investment and actuarial consulting contracts at a minimum every ten years. The Professional Consulting Policy will permit OTTA to contract with consultants for an initial contract term of five years with a one-time option to renew for an additional five year term. She stressed that at the expiration of the successive five year term, OTTA will voluntarily issue a Request for Proposals (RFP) for consulting services. Representative Duffey asked why they are five and ten year terms. Ms. Voltolini said that issuing a RFP every two years may be disruptive and interfere with the program's long-term investment strategy. Representative Duffey requested that if any state or government entity has a faster process to let the Board know. Ms. Good wrapped up the Investment and Actuarial Consulting Contract portion by reviewing the status of the current contracts. She said that OTTA currently contracts with Wilshire, NEPC and Milliman, which all expire on June 30, 2017. Ms. Good said OTTA issued a Request for Information (RFI) on February 3, 2017. We received nine responses to the Investment Consulting RFI and two responses to the Actuarial Consultant RFI. OTTA is not going to rebid for actuarial or investment consulting services for the Guaranteed Savings Plan; rather negotiate new contracts with NEPC and Milliman. OTTA plans to issue a RFP for the Direct and Advisor plans and will bring a recommendation to the Board at the next meeting.

Mr. Dave Kemp and Ms. Voltolini reported on the Banking Research project specifically related to OTTA's contractual relationship with Fifth Third Bank. Mr. Kemp provided an overview and explained that Fifth Third is the record keeper for bank products, such as savings accounts and CDs, and Ascensus is the record keeper for non-bank products, such as Vanguard and DFA. He emphasized that Fifth Third, along with the extremely competitive rates, allows our Account Owners to have individual FDIC Insurance, which remains a huge selling point. Ms. Voltolini then reviewed OTTA's existing Fifth Third Bank contract terms, stating that the contract currently automatically renews for successive one year periods unless otherwise terminated. The current contract will be renewed for a one year period on September 1, 2017. Ms. Voltolini said we must give six months' notice if we plan on terminating our Fifth Third contract. She then said we have two options for next steps: 1. Continue the current contractual relationship with Fifth Third Bank, but modify the contract terms to move away from the automatic renewals every year, or 2. Issue RFP for contract term beginning September 1, 2019. Ms. Voltolini recommended option one as it continues to follow our current investment strategy, investment policies, and investment consultant(s) analyses. Representative Duffy suggested that we also work with Fifth Third Bank to modify existing contract provisions regarding early termination penalties.

MARKETING PRESENTATION

Mr. Ben Gibbons gave a Marketing Report for FY'17, as of December 31, 2016. He shared the new Mission, Vision and Values of the agency. Mr. Gibbons said the marketing team has three goals: promote our brand and raise public awareness of Ohio's 529 College Savings Program, engage with prospective customers and lifecycle education for existing account owners. He shared that the goal is to grow new accounts by 5% annually and grow new contributions by 5% annually. He reviewed statistics on enrollments, contributions, and traffic through different CollegeAdvantage media pages. He emphasized that the team is currently focusing our efforts around the Direct Plan. In regards to social media, Ohio's plan currently has the 4th largest following among the states. Mr. Charles See asked if we have received feedback on any of the ads. Mr. Gibbons said the team does research on general brand awareness. Mr. Gibbons wrapped up the presentation by reviewing screenshots of CollegeAdvantage ads in action.

VARIABLE SAVINGS PLAN INVESTMENT UPDATE

Mr. Stephen DiGirolamo reported on the variable savings plan investment update. He provided information specific to the CollegeAdvantage Direct and Advisor Plans.

Mr. DiGirolamo reported on the Direct Sold plans, stating that 15% of age-based options ranked in the top half of their respective peer universes for the quarter. They didn't do well this quarter due to domestic equity being up and fixed income being down causing underperformance. The Direct Sold options are still doing well on a one year and five year basis. Mr. DiGirolamo stated that stock selection is the cause of most underperforming plans this quarter. Vanguard Strategic Equity Option had a strong quarter returning 4.83%, and this was due to strong stock selection for the quarter and year.

Mr. DiGirolamo then went on to report on the Advisor Sold plans. He said that for the quarter, 100% of age-based options are ranked in the top half of their respective peer universes. Jumping to five years, 47% are ranked in the top half of their respective peer universes. He reported Rainier Mid Cap Equity Option is still on the watchlist for performance purposes and will be replaced in the near future. Again, the negative returns are mostly caused by stock selection.

Mr. Braun asked what distinguished the underperformance of Rainier from that of BlackRock Capital Opportunities Fund or BlackRock International Opportunities Fund. Mr. DiGirolamo said BlackRock may be placed on the watchlist for next quarter. He said that the underperformance of Capital Appreciation is due to the nature of the space. If they don't do well in the next two quarters it will be telling.

QUARTELY FINANCIAL UPDATE

Ms. Trisha Good reported the quarterly financial update. She reported that as of December 31, 2016 the assets under management (AUM) in the Direct and Advisor Plans total \$9.68 billion. Ohio is the nation's 6th largest sponsor of 529 plans. The overall assets under management (AUM) increased 1.7% from the previous quarter, slightly higher than the industry average.

Ms. Good reported that the Direct Plan in Ohio is the 7th largest in terms of Direct Plans across the nation. with total assets as of December 31, 2016 at \$4.9 billion. Ohio's Direct Plan AUM increased by 2.3% vs. the total Direct Plans nationwide increasing by 2.1% during the quarter.

Ms. Good reported that Ohio remains the nation's 4th largest sponsor of an Advisor Plan, with total assets as of December 31, 2016 at \$4.8 billion. Ohio's Advisor Plan AUM increased by 1.2% during the quarter vs. the total Advisor Plans' AUM increase of 0.9%.

Ms. Good reported on the AUM for the Guaranteed Savings Plan, saying it was \$304 million as of December, 2016, with the cash liability at \$244 million. She said the redemptions mirror the disbursement timing of the Variable plans.

Ms. Good stated in that our revenue and expenses are in line with expectations.

LEGISLATIVE UPDATE

Ms. Voltolini provided a legislative update to the Board. She stated that Senator Stephanie Kunze was appointed to the Board. She reviewed House Bill (HB) 471, which renamed the Board the "Ohio Tuition Trust Authority Investment Board" effective December 19, 2016. Ms. Voltolini shared that the Governor introduced the FY18-FY19 budget biennial budget proposal on January 30, 2017. She reviewed Senate Bill (SB) 5, which would increase the maximum income tax deduction for contributions to 529 and ABLE accounts to \$10,000 annually per beneficiary. Finally, she reviewed H.R. 529 that was introduced in January 2017 by Congresswoman Lynn Jenkins

NEW BUSINESS

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

PUBLIC PARTICIPATION

Mr. Braun asked if there was any public participation. There was no public participation.

ADJOURN

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

Signed by:

A handwritten signature in blue ink, appearing to be 'Eric A. Braun', written over a horizontal line.

Print name:

ERIC A. BRAUN

Date:

5-18-17