

Minutes of the Ohio Tuition Trust Authority

Board Meeting – November 17th, 2016
77 S. High Street, 31st Floor, South B&C Conference Rooms, Columbus, Ohio 43215

CALL TO ORDER: 10:08 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, Representative Dan Ramos.

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; Shreekanth Chutkay, IT & Data Manager; Kim Fisher, Human Resource Specialist; Judy Cunningham, PR Manager; Hannah Myers, Administrative Assistant.

Others Present: Craig Svendsen, NEPC; David Lindberg, Wilshire; Tom Morgan, BlackRock; John Park, BlackRock; 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.

APPROVAL OF MINUTES

Mr. Eric Braun asked for any questions or comments on the full Board minutes of the August 18, 2016 meeting. There were no questions or comments on the full Board minutes and Mr. Braun asked for a motion to approve the minutes. Representative Dan Ramos made a motion to approve. The motion was seconded by Mr. David Kosanovic. The remaining board members voted affirmatively and the motion passed.

EXECUTIVE DIRECTOR UPDATE

Mr. Tim Gorrell welcomed all to the meeting. Mr. Gorrell introduced a new OTTA staff member: Ms. Jessica Voltolini, In-House Counsel, and re-introduced Mr. Shreekanth Chutkay, IT and Data Manager.

Mr. Gorrell then briefly discussed the quarterly results, mentioning that Ohio remains very competitive in the standings with total assets at \$9.51 billion as of September 30, 2016. Ohio remains the nation's 7th largest sponsor of a Direct plan, and 4th largest sponsor of an Advisor Plan.

Mr. Gorrell went on to discuss the Morningstar ratings. He outlined the five pillars of Morningstar: Process, People, Parent, Price and Performance. The Direct Plan retained its Silver rating, and the Advisor Plan retained its Neutral rating out of 63 Direct and Advisor plans that were evaluated. Out of those 63 plans, 6 were upgraded and 6 were downgraded.

SavingforCollege.com also recently released their "top ten" list for performance as of the period ending September 30, 2016. Ohio's Direct plan ranked 10th for the 1 year period; 4th for the 3 year period; 6th for the 5 year period and 3rd for the 10 year period all ending September 30th.

Mr. Gorrell briefly discussed the marketing department, mentioning they have begun focusing on grandparents and have added a new grandparent page to the website. The marketing team also rolled out a Huddle folder to 128 schools, which is a take-home folder that goes back and forth from teacher to parents.

Along with that, Mr. Gorrell mentioned advertising with Gift of College, which has placed gift cards for college savings at Toys R Us and Babies R Us.

The next update that Mr. Gorrell shared was the Direct Plan fee reduction. He explained we were notified by Ascensus that the Direct Plan had reached a sufficient asset size (\$4.5 billion for six consecutive months) which triggered a fee reduction from 13 basis points to 12 basis points. This change was effective November 1, 2016.

Mr. Gorrell provided a summary of the K Share Class discussion from the August board meeting. Mr. Braun asked for a motion to approve Resolution FY 17-01, declining to offer the K Share Class within the Advisor Plan investment offerings at this time, but continuing to monitor the entry of K Shares into the 529 marketplace. Mr. Kosanovic made a motion to approve and Representative Ramos seconded the motion. Ms. Myers took role and the motion passed 5-0.

Next Mr. Gorrell provided details on the Fifth Third contract process. The Board had previously asked about the open bidding process for the contract. Mr. Gorrell explained that after an in-depth analysis, only two banks submitted a proposal for this contract with OTTA. One reason for partnering with Fifth Third was because there were no fees associated with it; additionally and Fifth Third's ability to structure the banking products within CollegeAdvantage as separate accounts (to allow each customer to participate in FDIC insurance) was a strong consideration. Fifth Third has generally offered rates competitive with other banks. Considerations of switching the banking option provider include 1) the record-keeper cost to change bank providers, 2) operationally this would be a very large project OTTA would need to coordinate with the recordkeeping provider in terms of effort, scope and timing of the launch with a new provider and 3) current un-matured CDs issued through Fifth third would need to either mature off or OTTA would need to pay any early withdrawal penalties per the terms of the current contract. OTTA is the only 529 plan in the country offering banking products as separate accounts for each account owner. Representative Duffey stated that he thought we were setting a precedent that we will not open bid for banking, which may not be the best practice. It may be expensive, but there may be missed opportunities in the rate of return we get for our customers. Representative Duffey ended his statement by suggesting doing more due-diligence. Mr. Braun suggested we investigate proposing a policy for rebidding to the board for their review and consideration at a future meeting. Mr. Gorrell recommended staying with Fifth Third another year from September 2017 because there would not be sufficient time before September 2017 to rebid and potentially relaunch banking options with another provider. Ms. Voltolini suggested that OTTA staff share at a future meeting a potential time schedule for a re-bid sometime before September 2018.

BLACKROCK PRESENTATION

Mr. Tom Morgan presented two investment option changes in the Advisor Plan. The first was recommending the removal of Rainier Mid Cap Equity option from the Ohio 529 Advisor Plan and replacing it with the iShares Core S&P Mid-Cap ETF option. The proposed change would drop the expense ratio from 1.10% to 0.07%, a decrease of 103 basis points (bp).

Mr. Braun asked for a motion to approve Resolution FY 17-2, which would remove the Rainier Mid Cap Equity option from the Advisor Plan and replace it with the iShares Core S&P Mid-Cap ETF option. Mr. Charles See made a motion to approve and Mr. Kosanovic seconded the motion. Ms. Myers took role and the motion passed 5-0.

Mr. Morgan also shared that BlackRock recommends replacing the iShares MSCI EAFE ETF with the iShares Core MSCI EAFE ETF as the underlying investment. This would result in a 25 bp reduction in expense ratio for investors.

Mr. Braun asked for a motion to approve Resolution FY 17-3, which would replace the iShares MSCI EAFE ETF with the iShares Core MSCI EAFE ETF as the underlying investment for the Advisor Plan's Single Strategy Investment Option. Ms. Voltolini said that the reduction is now by 25 basis points, rather than 24 as noted in the draft resolution. Consequently, the board amended the resolution and Mr. Braun asked for a motion to adopt the amended resolution. Representative Ramos made a motion to approve. Mr. Kosanovic seconded the motion. Ms. Myers took role and the motion passed 5-0.

Mr. John Park went into the historical background of BlackRock within the 529 industry. He stated the industry started to form approximately 20 years ago when legislation and changes to the tax code allowed 529 plans to enjoy their current tax benefits. Advisor-sold plans saw the most rapid asset growth because advisors could facilitate the process. Direct-sold plans began to see growth about 10 years ago when financial self-service

via the internet was embraced by the public. Today, direct-sold plans continue to grow faster than advisor-sold plans. Mr. Park explained that roughly half of the industry's assets are managed by 2 asset managers: Vanguard and American Funds. To be a successful plan it takes favorable tax incentives, performance, fees, and service. The future drivers of growth will be omnibus for advisor-sold plans; low cost, state tax incentives and employer match. American Funds accounts for approximately half of advisor-sold assets. Mr. Park explained that out of 32 advisor-sold plans, only ten are going Omnibus right now. The bigger players are going to take market share from the smaller plans. In overall assets, Ohio is the 4th largest plan. The overall strategy at BlackRock is to leverage partnerships, continue to get Omnibus wins and be vigilant from an expense perspective.

GUARANTEED SAVINGS PLAN INVESTMENT UPDATE

Mr. Craig Svendsen reported on the various investments of the Guaranteed Savings Plan. The plan assets are at \$323.4 million. The plan returned 2.9% during the quarter, and 8.5% over the last year period ending September 30, 2016.

Mr. Svendsen said that the asset allocations are close to target across the total portfolio. In the way of performance, we are seeing good numbers. Managers are outperforming the benchmarks in the 3 month period.

As a follow up to the August board meeting, Mr. Svendsen reviewed several asset allocation mixes for the board to consider de-risking the total portfolio and increasing the exposure to fixed income strategies. Mr. Svendsen reviewed the expected return and standard deviation of asset return using 1) 45%, 2) 80%, 3) 90% and 4) 100% immunization strategies. Informal quotes have been received from four fixed income managers for the above immunization strategies.

VARIABLE SAVINGS PLAN INVESTMENT UPDATE

Mr. David Lindberg reported on the variable savings plan investment update. He provided an overview of the capital markets and then provided information specific to the CollegeAdvantage Direct and Advisor Plans.

Mr. Lindberg reported Direct plan 35% of age-based options and 38% of the total options ranked in the top half of their perspective peer universe for the quarter. In the five year rankings, 60% ranked in the top half of their perspective peer universes. Additionally in the 529 Universe Analysis, across all measurement periods, as of 09/30/16, all options have positive performance which means all customers have made money in CollegeAdvantage. There are no options or managers on watch as of September 30, 2016. Mr. Lindberg provided more specific performance updates on several options to the board (section 2 of the Wilshire quarterly report) Overall, there are no concerns in the Direct Sold plan.

Mr. Lindberg then went on to report on the Advisor Sold plans. He said that for the quarter, 54% of funds are ranked in the top half of their respective peer universes. Jumping to five years, 55% are ranked in the top half of their respective peer universes (page 55). He reported that BlackRock High Yield is ranked at 1 for the quarter when measured against its 529 Peer Universe. BlackRock Strategic Income Opportunities is ranked at 25. He also noted that for the quarter, every fund is ahead of its relative benchmark.

Mr. Lindberg stated Rainier Mid-Cap Equity Option is on watch and as approved by the Board, will be replaced by the iShares Core S&P Mid-Cap ETF. Additionally, BlackRock will be replacing the iShares MSCI EAFE ETF with the iShares Core MSCI EAFE ETF. Wilshire has reviewed both of these changes and is in agreement with BlackRock's recommendation.

Mr. Lindberg provided more specific performance updates on several options to the board (section 3 of the Wilshire quarterly report).

QUARTELY FINANCIAL UPDATE

Ms. Trisha Good reported the quarterly financial update. She reported that as of September 30, 2016 the assets under management (AUM) in the Direct and Advisor Plans total \$9.51 billion. Contributions totaled \$204.6 million during the quarter, an increase of 2.8% over the same quarter last year. Mr. Braun asked how this compares to the projected sales included in the budget. Ms. Good responded the budget forecasts a 5% increase in contributions. The board asked for an updated marketing presentation during a future board meeting. Ms. Good also reported the quarter ending September 30th is the highest quarter of the year for distributions at \$327.5 million, which is a 12.1% increase from the previous year.

Ms. Good reported on the AUM for the Guaranteed Savings Plan, saying it was \$323 million as of September 30, 2016, with the cash liability at \$260 million. She also noted that we have paid out or transferred over \$3 million during the past couple months as a result of our annual Over age 28 payouts and small balance accounts clean-up process.

Ms. Good also stated all the financials audits were clean audits without management comments and completed on time (September 30, 2016).

NEW BUSINESS

Mr. Braun asked if there was any new business to discuss. The Board had no new business. Mr. Gorrell asked if Thursday is still a good day to hold the Board Meetings. There were no objections.

ADJOURN

Mr. Braun asked for a motion to adjourn the meeting. Mr. Kosanovic made the motion and Mr. Charles See seconded the motion. Without objection, the meeting was adjourned at 12:14 pm.

Signed by:



Print name:

ERZ BRAUN

Date:

2.16.17