

Minutes of the Ohio Tuition Trust Authority

Board Meeting – August 18, 2016

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

CALL TO ORDER: 10:03 a.m.

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

BOARD MEMBERS PRESENT:

Executive Board Members: Vineeta Jindal; David Kosanovic; Ann Womer Benjamin; Michelle Chavanne (appointed by Chancellor John Carey to serve as his designee for the August 18, 2016 Board Meeting, letter attached).

Legislative Board Members: Representative Mike Duffy.

Ohio Tuition Trust Authority (OTTA) Staff: Tim Gorrell, Executive Director; 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; Alan Perry, Milliman; Michael McPhillips, Office of Attorney General and Lisa Critser, 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

Representative Duffey asked for any questions or comments on the full Board minutes of the February 19, 2016 meeting. There were no questions or comments on the full Board minutes and Representative Duffey asked for a motion to approve the minutes. Mr. David Kosanovic made a motion to approve. The motion was seconded by Ms. Vineeta Jindal. Ms. Ann Womer Benjamin abstained, indicating she was not present at the February 19 Board meeting. The remaining board members voted affirmatively and the motion passed.

EXECUTIVE DIRECTOR UPDATE

Mr. Tim Gorrell welcomed all to the meeting. Mr. Gorrell introduced the new OTTA staff members: Mr. Shreekanth Chutkay, IT and Data Manager; Ms. Myers, Administrative Assistant; Mr. Ben Gibbons, Interim Director of Marketing; and reintroduced Ms. Kim Fisher, Human Resources Specialist. He also mentioned that OTTA has added three new Marketing Representatives: Mr. Brian Hall, Ms. Sabrina Naves, and Ms. Janet Smith.

Mr. Gorrell then briefly discussed the quarterly results, mentioning that Ohio remains the 5th largest sponsor of 529 plans, with total assets at \$9.35 billion as of June 30, 2016. Ohio also remains the nation's 7th largest sponsor of a Direct plan, and 4th largest sponsor of an Advisor Plan. The goal of

OTTA continues to be to attract new account owners and encourage them to engage in the 529 industry. Mr. Gorrell continues to confront myths and present knowledge about the plans to current and future account owners.

Mr. Gorrell then discussed K Shares. He summarized that BlackRock has begun to offer a “zero-payment” share class, known as K Shares, which would offer, within some of the options in the Advisor Plan, the lowest expense share class available to investors. At this time, not all underlying funds used by BlackRock to create the Advisor Plan options have K shares available to investors. In addition, if BlackRock utilized K Shares in the Advisor Plan, they would need to offset the foregone revenue from switching from I Shares to K Shares. The amount is currently estimated to be \$3.5 million annually that would need to be added to the BlackRock management fees. In essence the investors’ costs would simply shift from paying the mutual fund underlying fund expense ratio to paying an increased management fee. Mr. Gorrell mentioned OTTA was advised by Mr. Mark Scisocoe of Ice Miller and OTTA has no regulatory obligation in the K Share, if it doesn’t yield savings to the account holder. OTTA will hold off on participating in K Shares but closely monitor it for the future. Representative Duffey asked questions how OTTA informs account owners the Direct Plan offers distinct savings compared to the Advisor Plan as it relates to fees. Ms. Good explained that OTTA cannot make investment decisions for our account owners but provides information that is clear in providing information about the cost and fees of both plans. Mr. Kosanovic expressed concerns that the disclosure around K shares not be misleading. Ms. Michelle Chavanne explained legal representation from both BlackRock and OTTA has discussed and seems to be in agreement on a disclosure that could be added to the Advisor Plan Offering and Disclosure Statement with regard to K Shares being available but not being offered. Mr. Gorrell wrapped up the K Shares discussion by reminding the Board that there will be a voting item at the November meeting on whether or not we move forward with the K Shares.

Mr. Gorrell then discussed with the Board some initiatives within the 529 industry. He first talked about how the 529 holdings for FASFA are looking to be recalculated. The second item he mentioned was the ability to rollover 529s to retirement funds. The final item being considered within the 529 industry is the ability to use remaining 529 funds to repay student loans.

Mr. Gorrell discussed the possibility of the Board receiving the Board Packets electronically versus the physical copy. He wanted to obtain the Boards view regarding this proposal. Three of the Board Members were fine with receiving the Board Packets electronically, and two preferred the physical copy.

Before Mr. Gorrell concluded the Executive Director Update he mentioned to the Board that OTTA will be relocating to 25 S. Front Street sometime mid-Spring. We are also considering moving the board meetings to 25 S. Front Street. Finally, he informed the board that Jessica Voltolini, currently on maternity leave, has filled the position of In-House Counsel previously held by Ms. Elizabeth Yassenoff.

GUARANTEED SAVINGS PLAN INVESTMENT UPDATE

Mr. Craig Svendsen reported on the various investments of the Guaranteed Savings Plan. The total market value of the assets is \$338.1 million as of June 30, 2016. The plan returned 2.1% during the quarter, and a net of 0% for the fiscal year.

Mr. Svendsen explained that GMO Asset Allocation has been placed on hold at NEPC. GMO is experiencing a 10% reduction in workforce. The CEO, Mr. Brad Hilsabeck, has stepped down as CEO but plans to stay on the Board of Directors. In his place, the Interim CEO effective July 1 is Ms. Peg McGetrick. Mr. Svendsen remarked that the timing of the changes have had more of a fundamental influence, but didn’t add or retract to the results.

Mr. Svendsen reported that the overall rating on PIMCO is improving. He said that the assets are based predominantly in fixed income. PIMCO announced that Mr. Emmanuel (Manny) Roman will join as CEO beginning November 1st. They are also experiencing a voluntary reduction in workforce. Overall, Mr. Svendsen said the rating of PIMCO continues to rise.

Mr. Svendsen said that for the total fund performance for the quarter we are up 2.1%. Calendar year-to-date we are up 4.2%. Currency has been the driving force in the international space, and GMO and PIMCO have been underperforming. Negative interest rates in other countries on bonds filled the void because those countries were buying US bonds during the period that US stopped buying bonds. Mr. Svendsen said Seix rates are continuing to fall due to the declining interest rates, however Seix is positioned to outperform in a rising interest rate environment. The total Guaranteed Savings is up 2% in July alone, which is almost halfway to the return expectation. Year-to-date it is up 6.3% over the last seven months.

GUARANTEED SAVINGS PLAN ACTUARIAL VALUATION

Representative Duffey asked for a motion to approve Resolution FY 16-08 to approve the tuition inflation and investment return assumptions to be used in the Annual Valuation. Mr. Kosanovic made a motion to approve and Ms. Womer Benjamin seconded the motion. Motion passed by unanimous voice vote.

Mr. Alan Perry reported on the Actuarial Valuation. He reported that the Guaranteed Savings Fund had an actuarial reserve of \$56.9 million last year, and at the end of the 2016 fiscal year, the Guaranteed Savings Fund had an actuarial reserve of \$40.7 million. It went from being 116.6% funded last year to 113.7% funded this year. He reported this is part in due to actual investment loss compared to expected actuarial investment return during the past two years. Mr. Perry said getting a better idea of when this money is going to be paid out is important compared to the actuarial calculation, which will provide a better overall view of the portfolio. He indicated that the agency has de-risked and should consider de-risking more to keep the fund actuarially sound.

Representative Duffey asked for a motion to approve Resolution FY 16-09 to approve the actuarial valuation of the GSF, to use the assumptions voted on in Resolution FY16-08 for the actuarial valuation, and to resolve the "Under 18 GSF Payment Value" remains actuarially sound. Mr. Kosanovic made a motion to approve and Ms. Jindal seconded the motion. Motion passed by unanimous voice vote.

VARIABLE SAVINGS PLAN INVESTMENT UPDATE

Mr. David Lindberg reported on the variable savings plan investment update. He said that the difference between the Direct and Advisor plans are the active managers underperforming compared to index fund and the fee differences between the Direct and the Advisor Plans. Mr. Lindberg provided an overview of the performance of the capital markets in general and then provided specifics on the CollegeAdvantage Plans.

Mr. Lindberg reported that the Direct Plan funds have done well. He said that for the quarter 70% of age-based options are in the top half of their respective universe; 72% of risk-based are ranked in the top half of their respective universe and 71% of the total funds are ranked in the top-half of their respective universe (page 23). He said that overall these are really good rankings.

Mr. Lindberg reported that the Advisor Sold Plan funds were more challenged during the quarter. He said that 13% of the age based options ranked in the top half of their respective universe, 55% of the risk based in the top half of their respective universe, and 37% of the total funds ranked in the top half. The biggest challenges for the Advisor Sold Plan was Active Management performance compared to index or passive managed investments and the fee structure that is part of Active management.

Mr. Lindberg indicated one of the investment managers within the Advisor Sold Plan has been placed on the watch list, Rainier. Wilshire has discussed this with both Blackrock and Rainier.

Mr. Lindberg indicated that both the Direct and Advisor Sold Plans would be having a change in the Money Market option that is offered due to the change with SEC regulations that was discussed at the last board meeting.

QUARTERLY FINANCIAL UPDATE

Ms. Trisha Good reported the quarterly financial update. She said there is a shift in people going more towards the Direct Plan. The assets under management for the Direct Plan are up 6.5% from June 2015 to June 2016. As for the Advisor Plan, assets under management are down 2.4% through BlackRock. These numbers show a strong growth in contribution rates in the Direct Plan, and a decline in Advisor contributions. Ms. Good went on to report that the distributions are up 8.5% for the Direct Plan, and up 4.1% for the Advisor Plan (page 2).

Ms. Good then discussed the Guaranteed Plan. She said there is a plan in place to address older beneficiaries, those over the age of 28, and those with small balances. This is about 1,250 accounts and \$3.5 million scheduled for Fall 2016 distributions.

Ms. Good said that the revenue for FY'16 was \$7.6 million. It is a decrease in revenue from past fiscal years, which is due to the reduction of the OTTA administrative fees. The revenue continues to be sufficient for OTTA operating needs. Ms. Good briefly mentioned the Direct Plan investment conversion, which is scheduled for September 8th and 9th, is on target and will be executed as planned.

NEW BUSINESS

Representative Duffey asked if there was any new business to discuss. The Board had no new business. Mr. Gorrell added a reminder that the next Board Meeting will be held on November 17, 2016.

ADJOURN

Representative Duffey asked for a motion to adjourn the meeting. Mr. Kosanovic made the motion and Ms. Womer Benjamin seconded the motion. Without objection, the meeting was adjourned at 12:04 pm.

Signed by:



Print name:

ERIC A. BRAUN

Date:

11.17.16