

Minutes of the Ohio Tuition Trust Authority

BOARD MEETING – February 19, 2016

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

CALL TO ORDER: 10:05 a.m.

Ms. Elizabeth Yassenoff took roll and announced that a quorum was present.

BOARD MEMBERS PRESENT:

Executive Board Members: Eric Braun, Executive Chairman; Vineeta Jindal; David Kosanovic; and Charles See.(Chancellor's designee).

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

Ohio Tuition Trust Authority (OTTA) Staff: Tim Gorrell, Executive Director; Trisha Good, CFO/CIO; Beverly Martin, Director of Marketing; Elizabeth Yassenoff, In-House Counsel, David Kemp, Director of Customer Service and Operations, Kim Fisher, Human Resources Specialist, and Judy Cunningham, PR Manager.

Others Present: David Lindberg, Wilshire; Steve DiGirolamo, Wilshire, Michael Valchine, NEPC; Michael McPhillips, Office of Attorney General, Tom Morgan, Blackrock, John Park, Blackrock, Christopher Chung, Blackrock, and via conference call, Jonathan Steel, Blackrock.

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

Chairman Braun indicated that the Executive Committee had met immediately prior to this meeting and approved the Executive Committee meeting minutes from February 19, 2015. Chairman Braun indicated that the approved minutes were included in the members' Board books.

Chairman Braun proceeded to ask for any questions or comments on the full Board minutes of the August 20, 2015 meeting. There were no questions or comments on the full Board minutes and Chairman Braun asked for a motion to approve the minutes. Mr. David Kosanovic made a motion to approve. The motion was seconded by Ms. Vineeta Jindal and carried unanimously.

Chairman Braun then asked if there were any questions relating to the Special Board Meeting minutes from October 21, 2015. There were no questions or comments on the Special Board Meeting minutes and Chairman Braun asked for a motion to approve the minutes. Ms. Jindal made a motion to approve. Senator Williams seconded the motion and it carried unanimously.

EXECUTIVE DIRECTOR UPDATE

Mr. Tim Gorrell welcomed all to the meeting. Mr. Gorrell discussed the December passing of the PATH Act and the key areas covered as part of this legislation. This legislation has three areas of impact to the 529 industry: 1) Computers, accessories and related services are now considered a qualified higher educational expense, 2) account owners can recontribute to the 529 Plan money that is refunded by the school due to various reasons (within 60 days of the refund), and 3) Recordkeepers are no longer required to complete disbursement aggregation.

Mr. Gorrell also highlighted a few other key areas within the CollegeAdvantage Program. He explained to the Board that the Direct Plan had received a 5 cap rating (highest) for both in-state and out of state residents by Saving for College. He also explained that he has met with approximately ¼ of the General Assembly to provide the legislators with additional background regarding OTTA and to be able to answer any questions they might have regarding our Program.

Mr. Gorrell then turned over the Financial Update to Ms. Trisha Good. Ms. Good highlighted the quarterly Financial Report, and discussed in detail pages 1 and 2 of the document. This highlighted the areas of Assets Under Management (AUM), Contribution Totals (Direct and Advisor), and Disbursements (Direct, Advisor and Guaranteed). Ms. Good also provided an update on the funded position of the Guaranteed Savings Plan. Chairman Braun asked if OTTA had been monitoring the effect of lowering the OTTA fee on both the Direct and Advisor Plans. Ms. Good responded that she has been monitoring and OTTA looks to be in a good position with the revenue generated by the lower fees. Representative Duffey asked about the revenue generated from the Advisor Plan and discussion ensued.

Mr. Gorrell then asked the Chairman for permission to have Elizabeth Yassenoff discuss two items. Ms. Yassenoff discussed with the Board the current 5/3rd Contract. Ms. Vineeta Jindal stepped out of the meeting at this time. Ms. Yassenoff explained that the Board should be aware that the contract with 5/3rd goes into an automatic renewal for 1 year if either party does not give notice of cancellation by March 1st. The effective date of the renewal is September 1st, and requires a 180-day advance notice. Representative Duffey and Senator Williams each asked questions about the open bidding process for contracts and discussion ensued. The Board agreed to allow the 1 year auto renewal to occur for this year, but requested that OTTA staff provide an update to the Board regarding the current status of the contract and feasibility of conducting a bidding process in the future. Ms. Jindal returned to the meeting following that discussion.

Ms. Yassenoff then discussed with the Board recent proposed changes to the Vanguard Contract. She explained the changes are all in favor of OTTA and the updates are to non-substantive and legal terms only, as described in the summary document provided in the Board books. Chairman Braun asked if there were any questions or comments regarding Resolution FY 16-03. There were no questions or comments, and the Chairman asked for a motion to approve the Resolution. Representative Duffey made a motion to approve, and Ms. Vineeta Jindal seconded the motion. The motion carried unanimously.

GUARANTEED SAVINGS PLAN INVESTMENT UPDATE

Mr. Michael Valchine reported on the various investments of the Guaranteed Savings Plan. The Plan returned -2.9% over the last year (page 6 of the presentation). He explained that much of the challenge that has occurred is based on the difference between active and passive management. The actively managed investments have underperformed during this period. Mr. Valchine also pointed out page 19 of the presentation since there was previous discussion about the 5/3rd offerings, and this page highlights the differences in the 5/3rd CollegeAdvantage savings and CD rates versus the competitors.

Mr. Valchine explained the Guaranteed Investments are in a very good position as it relates to the liabilities. As a result, there is an opportunity to reduce the risk associated with these investment options. In addition, the assumption for investment return in the actuarial valuation was reduced to 4.5% for FY16. He discussed the current target for the investment options within the Guaranteed Plan versus the proposed changes (page 27). The proposed changes would increase the allocation within Total Fixed Income, and reduce Equity and Global Asset Allocation. Discussion ensued regarding the proposal and the reasons for change. Mr. Charles See asked whether this recommendation was based on results from the last quarter alone, or a general trend. Mr. Valchine responded that it was not based on any recent market action, but on the logic of bringing the allocation more closely in line with the assumed return.

Chairman Braun asked for a motion to approve Resolution FY 16-04. Mr. See made the motion to approve and it was seconded by Senator Williams. The Resolution carried unanimously.

VARIABLE SAVINGS UPDATE

Mr. David Lindberg referred to Wilshire's Capital Markets Update provided in the Board books. He indicated that oil is having a significant impact on commodities and emerging markets. The Market had experienced relatively low volatility until the last year. He discussed the 10 year Asset Class Assumptions that were developed by Wilshire (TAB 1, page 4). Mr. Lindberg explained that, similarly to the NEPC update, actively managed investments have been underperforming compared to index investment options. He pointed to C and D rated companies performing better than their A and B rated counterparts, and that most actively managed Investments tend to invest more in the A and B rated companies. Mr. Charles See asked if Mr. Lindberg could review with the Board what is attributing to the success of the C and D rated companies relative to the A and B rated companies. Discussion ensued regarding the investments of the Variable Savings Plans.

DIRECT PLAN OVERVIEW

Mr. Lindberg discussed the Direct Plan's Investment Options compared to the 529 Morningstar universes. Despite a challenging quarter, the investment options within the Direct Plan are performing extremely well over the last year, 3 years, and the 5 year spread (TAB 2, page 20). He indicated the CollegeAdvantage age based products are relatively conservative compared to others within the 529 industry. As previously discussed, the active management investment options are underperforming compared to the index options over the last 3-5 years.

Next, Mr. Lindberg explained that there would need to be a change to the Money Market investment option based on recent Securities and Exchange Commission Changes (SEC), and deferred the conversation as Blackrock would be providing a thorough explanation of the need for change. He indicated this impacted both the Direct and Advisor Plans.

MONEY MARKET

Chairman Braun introduced Tom Morgan from Blackrock. Mr. Morgan then thanked the board for the opportunity to meet with them and for their partnership. At this time, Mr. Morgan introduced Jonathan Steel from Blackrock via a conference call. Mr. Steel discussed in detail the reasons for changes required for the Money Market Investment option. He also discussed the five types of Money Market options that are available: 1) Prime Institutional Funds, 2) Municipal Institutional Funds, 3) Prime Retail Funds, 4) Municipal Retail Funds and 5) Government/Treasury Funds. The only Money Market exempt from the SEC changes are the Government/Treasury Funds. The SEC requires all organizations to be in compliance with the regulation by October 14, 2016.

Mr. Steel discussed in great detail the changes that are part of the SEC regulation, and these cover two main areas with includes Liquidity Fees and Redemption Gates. The SEC provided guidelines for when these two tools are to be utilized by the Investment Organization. Mr. Steel opened it up for any questions relating to the new regulation. Mr. David Kosanovic asked why Liquidity Fees and Redemption Gates are optional for the Government/Treasury Funds. Mr. Steel responded that those funds may opt in to Liquidity Fees and Redemption Gates, but they would be required to disclose the decision in their offering documents. Discussion ensued regarding Money Market reform.

Both Mr. Lindberg and Mr. Morgan indicated that both the Direct and Advisor Plans are seeking approval to move the current Money Market investment option to the Government/Treasury Money Market Option.

Chairman Braun then asked for a motion to approve Resolution FY 16-06 for the Direct Plan to exchange the current Money Market option to the Vanguard Federal Money Market Fund, amended to request that OTTA staff follow up with the Board regarding Liquidity Fees and Redemption Gates in the Vanguard Federal Money Market Fund. Ms. Jindal made a motion to approve, and it was seconded by Mr. See. The motion carried unanimously.

Chairman Braun then asked for a motion to approve Resolution FY 16-07 for the Advisor Plan to exchange the current Money Market option to the BlackRock US Treasury Money Market Fund. Ms. Jindal made a motion to approve, and it was seconded by Mr. See. The motion carried unanimously.

VANGUARD ASSET ALLOCATION

Mr. Lindberg presented recommendations from Vanguard to increase global diversification in the Risk-Based and Vanguard Age-Based Options in the Direct Plan. Vanguard expects that over the long-run, allocations should reflect worldwide market capitalization weightings because country risk is diversifiable and the global market weighted portfolio is positioned on the forward looking efficient frontier. Vanguard's recommendation is to increase global diversification in both the equity and fixed income allocations across all options and all age-based age brackets. In general, the international equity allocation would increase from 30% to 40% of the total equity allocation. The international fixed income allocation would increase from 20% to 30% of the total fixed income allocation. Mr. Lindberg commented that this recommendation is very much in line with the thinking at Wilshire and therefore, Wilshire is in support of this recommended change in the Asset Allocation of said Vanguard options.

Chairman Braun asked for a motion to approve Resolution FY16-05. Senator Williams made the motion and Mr. Kosanovic seconded. The motion passed unanimously.

ADVISOR PLAN OVERVIEW

Mr. Stephen DiGirolamo discussed the Advisor Plan investment options compared to the 529 Morningstar universes (TAB 3, page 53). The Blackrock investment options are performing extremely well over the last quarter, 1 year, and 3 years in comparison to their peers. He indicated the Rainier Mid Cap Equity Option has been removed from the Watch List as the performance has improved in comparison to its peers. Senator Williams asked about performance of the energy investments in one of the BlackRock Investment Options and discussion ensued.

GLIDEPATH AND ASSET-LIABILITY FRAMEWORK PRESENTATION (BLACKROCK)

Chairman Braun then reintroduced Mr. Tom Morgan from Blackrock. Mr. Morgan introduced Christopher Chung. Mr. Morgan explained that Blackrock is constantly looking for ways to improve their 529 portfolio and they also look for other areas within the organization for the types of ideas. Mr. Chung began his presentation explaining one area that has a similar type of investment strategy would be the Defined Contribution (DC) Retirement investment.

Mr. Chung explained that most 529 investments have an Asset Framework versus the combination of Asset-Liability Framework. He indicated that having a direct correlation between both the Assets and the Liability would help to decrease risk both from an Expected and Surplus Risk category as the beneficiary nears the college age. He covered a number of examples about how this strategy would be implemented within the CollegeAdvantage Advisor Plan (Miscellaneous TAB-529 Asset Liability Framework Presentation). Mr. Chung opened up the floor to questions, and Senator Williams asked if the liability considerations should account for types of schools that beneficiaries intended to attend. Mr. Chung responded that such a consideration is up to the investor in terms of how much to save and that the framework would be beneficial regardless of type of school attended. Discussion ensued regarding the Asset-Liability Framework.

Mr. Morgan closed this presentation by conveying that Blackrock was not currently seeking approval to make this change, as this was an area they were researching for the 529 Plan. He wanted the Board to have some background relating to this subject in the event that they might seek approval for this investment strategy in the future.

NEW BUSINESS

Chairman Braun asked if there was any new business to discuss. The Board had no new business; however, Ms. Yassenoff informed the Board that she will be leaving OTTA after almost two years of working for the Agency. The Board wished her well.

Chairman Braun asked if any Board members had any objection to keeping the location of future board meetings at the Riffe Center and hearing none confirmed the Riffe Center would be the new location of OTTA Board meetings.

ADJOURN:

Chairman Braun asked for a motion to adjourn the meeting. Senator Williams made the motion and Representative Duffey seconded the motion. Without objection, the meeting was adjourned at 12:35 pm.

Signed by: 

Print name: Michael Duffey

Date: 8.18.16