

## Minutes of the Ohio Tuition Trust Authority

BOARD MEETING – May 21, 2015

35 E. Chestnut Street, Basement, Mohican Conference Room, Columbus, Ohio 43215

### CALL TO ORDER: 10:05 a.m.

Ms. Elaine Kinney took roll and announced that a quorum was present.

### BOARD MEMBERS PRESENT:

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

**Legislative Board Members:** Representative Mike Duffey.

**Ohio Tuition Trust Authority (OTTA) Staff:** Paul Paeglis, Executive Director; Trisha Good, CFO/CIO; Beverly Martin, Director of Marketing; Judy Cunningham, Community Outreach/PR Manager; Brent Templeton, Interim CTO, Elaine Kinney, HR/Administrative Professional, Elizabeth Yassenoff, In-House Counsel and David Kemp, Director of Customer Service and Operations.

**Others Present:** David Lindberg, Wilshire; Craig Svendsen, NEPC; Tom Morgan, BlackRock; Mike Boutoureira, BlackRock; Phil Green, BlackRock; Matt Selihar, BlackRock; John Park, 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 asked for any questions or comments on the Executive Committee minutes of the February 19, 2015 meeting and the Full Board minutes of the February 19, 2015 minutes. Ms. Elizabeth Yassenoff stated the Executive Committee minutes were previously approved and did not need to be considered. 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. Ann Womer Benjamin and carried unanimously.

### EXECUTIVE DIRECTOR UPDATE

Mr. Paul Paeglis welcomed all to the meeting and stated there are several voting items on the agenda, starting with Resolution FY15-09. The resolution is a reduction in the Ohio Tuition Trust Authority's (OTTA) Administrative Fee charged on the investment options in both the Direct and Advisor Plans from 0.04% to 0.02%. He explained we have this opportunity based on plan growth and efficiencies realized through administrative service charges. The plan has built a significant surplus over the last several years as revenue generated has exceeded operating expenses. It is prudent of OTTA to take this action to keep the fee to a minimum, while still maintaining a sufficient cash surplus to minimize the impact of inevitable market declines. Mr. Paeglis referred to his memo in the Board notebook and reviewed details contained therein. This action would be implemented for the Direct Plan June 19, 2015 in conjunction with the Direct Plan line-up changes. The reduction for the Advisor Plan would be implemented as soon as feasible. Mr. Paeglis asked the Board for a concurrence vote to support the decision. Mr. Kosanovic asked if there are any benchmarks from other states' fee schedules and Mr. Paeglis responded there are many different models for 529 college savings plans and OTTA ranks comparable or better than other plans. Reducing the fees will make CollegeAdvantage more attractive by lowering costs to account owners, further advance CollegeAdvantage as one of the lowest cost Direct plans nation-wide and help

position the both plans for better ratings from Morningstar. Discussion ensued. Chairman Eric Braun asked for a motion to approve Resolution FY15-09 and Mr. Kosanovic made the motion. Ms. Vineeta Jindal seconded the motion. Roll call was taken and the motion passed unanimously.

Mr. Paeglis continued with the next voting item, Resolution FY15-10. He explained that OTTA's actuarial consultant, Milliman, provides an annual actuarial valuation of the position of the Guaranteed Savings Fund (GSF). In order to do this, OTTA needs to provide Milliman with the tuition inflation assumption and the investment return assumption. Mr. Paeglis referred to his memo in the Board notebook and reviewed details of the weighted average tuition growth and the five year history of the GSF investment returns. OTTA is recommending a tuition inflation assumption for the next two years in line with the maximum amount of increase permitted by the State of Ohio biennial budget when it gets signed into law, and a 5.5% assumption for all years after Fiscal Year 2017. The recommendation for the investment return assumption is 4.5%. Mr. Charles See asked if we are confident we are on track to meet the payout obligations with a 4.5% return. Mr. Paeglis stated tuition growth and investment returns are similar since June of 2014 and we do believe the plan will have sufficient funds to meet the demands. Discussion ensued. Chairman Braun asked for a motion to approve Resolution FY15-10 and Mr. See made the motion. Ms. Womer Benjamin seconded. Roll call was taken and the motion passed unanimously.

Mr. Paeglis asked Ms. Trisha Good to summarize Resolution FY15-11 pertaining to the changes in the Direct Plan Investment Policy. Ms. Good explained that the only significant changes include combining the Advantage Age-Based Investment Policy into the Direct Plan Investment Policy, updating benchmark measurements and adding a Proxy Voting Policy to allow OTTA investment staff to vote proxy votes. All other changes are minor formatting and grammatical revisions. Ms. Womer Benjamin asked who is the investment staff. Ms. Good stated that is herself. Without any questions, Chairman Braun asked for a motion to approve Resolution FY15-11 and Mr. Kosanovic made the motion. Ms. Jindal seconded and roll call was taken. The motion passed unanimously.

Mr. Paeglis stated that it was recently discovered that OTTA and Ohio Venture Capital Authority are the only state entities that have Directors & Officers Insurance. The Department of Administrative Services (DAS) legal counsel was consulted to determine if there is a benefit of having this coverage. It was determined that Board members and employees are covered by governmental immunity as appointed members of a State Board and everyone has protection as long as they are acting within the scope and responsibility of their role as OTTA Board members. OTTA intends not to renew this coverage and Board of Regents concurs with this decision. Ms. Womer Benjamin asked if it would be possible to seek the opinion of the Attorney General's office on this topic and to distribute something in writing to all Board members. Mr. Kosanovic also asked if there were any jurisdictions the immunity did not apply. Discussion ensued. Mr. Paeglis said OTTA would do some additional research and report back to the Board members.

Mr. Paeglis stated that he wanted to let the Board members know that the agency is celebrating its 25 year anniversary of the first accounts being opened in April 1990. The Marketing Department planned many events commemorating the anniversary, including conducting 25 workshops across the state, publishing testimonials on the website from original account owners describing their families' success using CollegeAdvantage, a three week radio campaign and a contest giving away ten \$2,500 College Savings Awards. Ms. Beverly Martin distributed an infographic showing details of the program, such as: serving over 750,000 beneficiaries, contributions over \$10B to CollegeAdvantage accounts, over \$4B in distributions with 93% self-reported as being used for 529-qualified expenses and 77% of those dollars going to Ohio schools.

Mr. Paeglis continued his update with a review of the Direct Plan Investment line-up changes that were approved at the February Board meeting. The implementation date is June 19<sup>th</sup> with the changes going into effect on June 22<sup>nd</sup>. A customer letter is planned for June 1<sup>st</sup> and there are a number of items affected by this change. Updates will be made to the enrollment kit, the investment guide, the website and the Offering Statement. We are on track to complete this project on time.

Legislative updates on the Federal side include the House passed S. 335 with improvements to 529 plans and it should reach the Senate floor within the next month. Ohio Senate Bill 6, a bill to raise the annual allowable deduction for contributions to CollegeAdvantage from \$2,000 per beneficiary per year to \$10,000 per beneficiary per year, has passed the Ohio Senate and is now before the Ohio House for

consideration . The Ohio ABLE bill, as currently drafted, places Ohio's ABLE 529 Program within the Office of the Treasurer and not the Ohio Tuition Trust Authority. We will continue to monitor the legislation until it becomes law.

Mr. Paeglis stated the program had another good quarter. Contributions to CollegeAdvantage increased in the third quarter of FY 2015 at a rate of 3.7% over the third quarter of FY 2014. Contributions for the previous 12 months total \$951.3M or 6.0% for the overall Program, with growth of 5.1% in the Direct Plan and growth of 7.1% in the Advisor Plan. The expectations are for continued good growth.

Chairman Braun thanked Mr. Paeglis for his report and asked for any questions. With none, he asked Mr. Craig Svendsen of NEPC for his report.

### **GUARANTEED SAVINGS PLAN INVESTMENT UPDATE**

Mr. Svendsen reported the Guaranteed Savings Plan total assets are \$408.6M. The Plan returned 1.5% during the quarter and 0.2% for the Fiscal Year to Date. April 2015 was a good month and brings the FYTD performance to 1.7%. He reviewed the manager updates outlined in the NEPC Quarterly report in the Board notebook. The total fund asset allocation is very close to the policy target allocation, re-balancing is continuously used to maintain the portfolio target. Mr. Svendsen presented details of total fund performance, stating a strong run in the capital markets has led to lowered future expectations. The Plan is meeting tuition payments and maintaining well. The banking products have an enhanced yield over the general market. He asked for any questions and there were none.

Mr. Paeglis welcomed the BlackRock representatives to the meeting and introduced Mr. Tom Morgan.

### **BLACKROCK PRESENTATION**

Mr. Morgan thanked the meeting attendees for the opportunity to join their meeting today and stated he and his team will be providing an overview of BlackRock's role of program manager for the CollegeAdvantage Advisor Sold Plan. He stated Blackrock has an experienced team with 15-20 years in all areas. They recognize the relationship with CollegeAdvantage as a partnership and appreciate the opportunity. BlackRock's focus is on raising the dialog around college savings. A hand out was distributed titled "OTTA Board Presentation". Mr. Phil Green's presentation focused on what BlackRock is doing for CollegeAdvantage in terms of investments, describing how asset allocation decisions are made and the process of security selection. Mr. Mike Boutureira provided an update on marketing strategies, stating there are three areas of focus: 1) the Edward Jones partnership, 2) improving the college savings presence on the BlackRock website and 3) the college savings value added program. Mr. Matt Selihar provided a demonstration of the College Planning Tool on the BlackRock website. Ms. Womer Benjamin asked if the tool was free to use and Mr. Selihar stated that it is. Discussion ensued.

Mr. John Park provided an update on the Omnibus Accounting platform. This process will bring the ease of processing transactions to the Financial Advisors. He reviewed the partnership outlook, stating that it is a collaborative effort with the CollegeAdvantage IT and Operations Departments. Mr. Morgan asked for any questions or clarification and with none, thanked Mr. Paeglis and the board members for their time.

### **VARIABLE SAVINGS UPDATE**

Mr. David Lindberg referred to Wilshire's Executive Summary of Investments provided in the Board notebooks. For the Direct Plan quarterly results are great, with 70% of age-based options and 71% of risk-based options ranked in the top half of their respective peer universes. Over the last 10 years, U.S. markets are up 8.4%. Regardless of their investment choices, investors have made money in the CollegeAdvantage Direct Plan. The fund manager changes that were outlined in the previous Board meeting are being implemented. Mr. Lindberg reviewed the glide paths of the Advantage Age-Based options, stating they will be changing with the implementation of new direct line-up of funds. He covered details of performance returns, highlighting Vanguard Windsor II outperforming its benchmark by 61 basis points (bps) for the quarter and Vanguard Morgan Growth outperforming its benchmark by 43 bps for the quarter.



Mr. Lindberg stated that 2/3 of the BlackRock age-based options are in the top half of their respective peer universes during the quarter. Additionally, 50% of the risk-based and individual options are in the top half of their respective peer universes for the quarter ending March 31, 2015. BlackRock Global Allocation Option outperformed by 166 bps during the quarter. This fund has the highest participation of CollegeAdvantage account owners. Mr. Lindberg asked for questions and Mr. See asked what is the general view on the unconstrained strategy that BlackRock is taking. Mr. Lindberg responded that this is an area where skill in risk assessment is critical and BlackRock is strong in that area. Discussion ensued. Chairman Braun asked for any additional questions and with none, thanked Mr. Lindberg for his report.

#### NEW BUSINESS

Chairman Braun asked for any new business to be brought before the Board, any questions or comments. There were none.

#### PUBLIC PARTICIPATION

There was no public participation in the meeting.

#### ADJOURN:

Chairman Braun asked for a motion to adjourn the meeting. Mr. Kosanovic made the motion and Ms. Jindal seconded the motion. The meeting was adjourned at 12:48 pm.

Signed by: \_\_\_\_\_

Mr. Eric Braun  
Executive Committee Chairman

Witnessed by: \_\_\_\_\_

Trisha A. Good  
Ms. Trisha A. Good  
CFO/CIO

Date: \_\_\_\_\_

8.20.15

Date: \_\_\_\_\_

8/20/15