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Wisconsin College Savings Program Board

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College Savings Program Board Investment Advisory Committee Meeting

MacArthur Conference Room (#1018)
101 E. Wilson Street, Tenth Floor; Madison, Wisconsin

August 13, 2012 -- 10:00 a.m.

Draft Minutes

- I. **Call to Order and Roll Call** at 10:07 a.m. (Ken Johnson, Chair)
Present: Ken Johnson, Bill Oemichen, Debbie Durcan, Michael Wolff, Rob Kieckhefer (joins at 10:20), Annoesjka West, Karen McKechnie, and Jim DiUlio

Guests from TIAA-CREF Tuition Financing, Inc.: Doug Chittenden, Kerry Alexander, Craig Parkin, and Ed Mihallo (by phone)
- II. **Agenda Approval and Public Posting Report** (Chair, staff) Meeting has been posted properly. Agenda approved by voice vote.
- III. **Approval of Committee Meeting Minutes for February 13, 2011** Minutes are not available, they will be ready at the November meeting.
- IV. **Public Presentations** None requested
- V. **Old Business**
 - A. **Second Quarter 2011 Investment Performance Reports, Watch List discussion**
[Callan Associates] *Annoesjka West* started her review of the Executive Report saying it was a rough quarter for managers. The individual options placed on the Watch List last quarter continue to underperform. Underperformance is a similar story for most equity managers. Fixed income funds have done much better. The plan portfolios struggled for the quarter, but when looking back longer, many were at or exceeded benchmarks.

Regarding the multifund portfolios, Callan tries to match the investment allocations with peers. However it can be difficult with the various approaches of different plan designs. They focus on the underlying allocation rather than the name or number of the age band.

Discussion turned to the Watch List during transition. *Johnson* asked if the process should look forward and back due to the short history. *West* said she would prefer to just look forward, since that is what investors are buying. *Doug Chittenden* offered



that in TFI's previous conversions, an area to concentrate on communications would be when the public looks for three- and five-year histories to make comparisons. He added that a large number of Edvest accounts, including the current age-based accounts, will be in index-based portfolios—avoiding a Watch List issue.

When asked, *West* said the revised Watch List criteria and other information about the underlying funds will provide the tools they need to monitor the plans.

VI. New Business

A. Introduction of TIAA-CREF Tuition Financing, Inc. guests

Doug Chittenden began by saying one of the key parts of the transition is deciding on the lineups for both plans. The mapping of current investments, regulatory and marketing materials, and education pieces all flow from th

- B. Proposed investment lineups for EdVest direct-sold plan and Tomorrow's Scholar advisor-sold plan.** *DiUlio* outlined the TFI/ING fund proposal in a side-by-side comparison with the existing plan lineups, showing the corresponding investments current accounts would transition to along with new choices. A difference from the current lineup is Wells Fargo's years-to-college age progression will transition to one based on the beneficiary's age, and will migrate between at the nearest quarter rather than in August. Another change is the money market will be replaced by TIAA-CREF's Principal Plus interest option, with a guaranteed rate and liquidity for the participant. *Wolff* wondered if there would be difficulty in marking that portfolio to market, as earlier insurance accounts had problems doing so.

The subcontract with ING also expands investment choices. In the transition process, the EdVest accounts sold through investment advisors will move to the new ING Tomorrow's Scholar, affecting about 22% of all participants. Added share classes will be available for fee-only Registered Investment Advisors, as well as those to encourage incoming rollovers. The sales charge for A Shares will drop to 4.75% from 5.75%.

Johnson asked if the changing the EdVest age-based investment from active to passive funds would raise concerns. *Chittenden* said that these accounts are often 'set and forget' types of investment, and participants would enjoy the lower fees. *West* added that removing the term 'money market' could also confuse investors. *Chittenden* then explained the mechanics of the Principal Plus insured option, saying that 10-15% of participants across their 10 other 529 state plans use this choice, mostly with older beneficiaries.

Discussion then moved to mapping the age-based investors from active-based portfolios to index-based portfolios. *Kieckhefer* said that it was not a direct map as would be common in ERISA plans. *Chittenden* replied that their internal planning was more focused on moderate investors where cost would be a factor. And with the proposed lineups, investors could now choose from index- and active-based multifund portfolios within the same EdVest plan. *Wolff* added that he thought a lower-cost choice would be appropriate in the view of investors. *Ed Mihaló* felt the index-based portfolios were a better map due to the risk considerations, along with the proposed expanded glidepath. *Durcan* asked about how much fees would be impacted by the change. In many cases, fees could drop by half. *Chittenden* added that the underlying thinking behind their proposal was to make things simple and easy to use. Tomorrow's Scholar would have the broad investment lineup, and EdVest would focus on the easy-to-understand and use product for the investor.

Motion by Wolff, second by Oemichen: In light of the current requirements of the Statutes, the Investment Advisory Committee has reviewed the investment lineups for the EdVest and Tomorrow's Scholar savings plans proposed by TIAA-CREF Tuition Financing, Inc., upon transition from the current program manager, Wells Fargo Funds Management. The committee recommends to the College Savings Program Board the approval the proposed investment structure for both existing account owners and prospective owners. Carried by unanimous voice vote.

C. Morningstar interviews, August 23.

DiUlio will join the TFI staff at Morningstar's offices in Chicago for 529 plan interviews.

VII. Discussion Items for Future Committee Meetings - *Johnson* asked for comments regarding the Investment Policy document before the August meeting. The committee also would like to continue portfolio manager visits.

VIII. Announcements None

IX. Adjournment The meeting was adjourned at 12:08 pm.