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Wisconsin College Savings Program Board

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College Savings Program Board Investment Advisory Committee Meeting

State of Wisconsin Department of Administration Building
101 E Wilson Street; Madison, Wisconsin

August 18, 2014 -- 10:00 a.m.

Minutes

- I. Call to Order and Roll Call** at 10:02 a.m. (Ken Johnson, Chair)
Present: Ken Johnson, Rob Kieckhefer, Michael Wolff, Bill Oemichen, Annoesjka West, Catherine Burdick, Jeremy Thiessen, Paula Smith (by phone), Bill Theriault (by phone), and Jim DiUlio.
- II. Agenda Approval and Public Posting Report** (Chair, staff) Meeting has been posted properly. Motion by Oemichen, second by Kieckhefer to approve agenda. Approved by voice vote.
- III. Approval of Committee Meeting Minutes for December 2, 2013, February 24 and May 19, 2014** Motion by Wolff, second by Oemichen to approve the minutes. Carried.

The scheduled presentation by Mr. Theriault will begin shortly; the Committee agreed to move to the Old Business portion of the agenda until his arrival.

V. Old Business

- A. **Second Quarter 2014 Investment Review** [Callan Associates] *Annoesjka West* reviewed the second quarter market summary. All segments were in the black, much of it driven by consumer spending. Some concern over jobs, but mostly good news. (see the detailed reports for each plan's portfolios and underlying investments)
- B. **Watch List, Recommendations** Discussion then moved to the PIMCO Total Return Fund, currently on watch. The fund's outflows are greater than purchases in recent months, but the investment team is still in place and the fund is meeting benchmarks. Some of its sectors are up, some down, but the fund is generally adding value. *Johnson* asked the plan managers to research possible alternatives as part of the year-end investment review. The fund will remain on watch; there are no other funds that on a quantitative basis would qualify for the list.

Our guest is now on the phone, so the meeting will go back to agenda item IV.

IV. Public Presentations: William Theriault, CFA, Voya Investment Management Senior Vice President and Portfolio Manager was introduced by Paula Smith. His presentation today will cover Voya's equity investment platform and process, and a performance review of six Voya funds in the multi-fund and standalone portfolios.

Theriault discussed the teams making up the fundamental equity classes and also the portfolio engineering or quant team. Stock selection is their underlying focus, keeping sector-neutral, with no macro bets. They also favor manager evaluations over a full market cycle, up to trailing 7 years.

He then went through details of each of the portfolios, including key stocks in each, both as contributors or detractors. *Johnson* asked about the number of stocks in the funds. *Theriault* said that it varies. In small cap there are usually fewer than their peers—for liquidity reasons, but in large and midcap they are in the 60 to 80 range, subject to their sector-neutral guidelines. Some discussion continued on how the sector teams operate from the bottom up, and looking forward to the next 5 years. *Theriault* said he also spends time discussing Tomorrow's Scholar with the wholesale distribution network nationally.

VI. New Business

A. **Investment Program Review: Wisconsin's College Savings Plans** *West* presented this report, prepared by Callan from their 529 plan database and follows their earlier report on 529 fees vs. the industry. The report looks at the peer groups for both Wisconsin plans, and analyzes the glidepaths. The universe of plans totals 86—50 direct-sold and 36 advisor-sold.

Edvest has 22 investment options, Tomorrow's Scholar has 31 (counting an age-based path as 1). Nationally, both fall in the middle, a bit above the average and median. With open architecture, both plans are in-line with the median and average for utilizing multiple underlying managers for portfolios.

Static options are in line, with capital preservation, domestic fixed income, international and domestic equity. In addition there are options not widely available in the 529 universe: a socially responsible fund and small/mid-cap selection in Edvest, along with high yield and REITs in Tomorrow's Scholar—not offered in the majority of 529 plans.

Looking at the age-based options, both of Edvest's options are on par with the industry's consensus glidepath. Tomorrow's Scholar has a higher than consensus equity allocation, but is more finely calibrated to age through 9 bands, versus the average and median (both 6) for advisor-sold plans. Both plans also offer a higher degree of inflation protection and more diversification than the majority of direct- and advisor-sold plans. The risk-based options are greater (10 for Edvest, 9 for Tomorrow's Scholar) than the industry average of four. However, this is a communication challenge to explain the small differences between portfolios.

The committee discussed again what was the optimal number of investment to offer in a direct plan. Also a question of how to determine a new portfolio's asset size against a background of legacy portfolios. *Thiessen* said that Edvest is different than most direct plans, where the age-based options are the largest. Pre-transition, Edvest's largest portfolios were in standalone options. Discussion will continue.

Jeremy Thiessen then provided a short introduction, including his background as a consultant with PCA's 529 investment practice advising 10 states. He is based in

Portland and leads a team of three in New York. He has also been active in national conferences and 529-related events. And he has enjoyed his first visit to Wisconsin.

B. Due diligence meetings due to the hour, discussion will be postponed

VII. Discussion Items for Future Committee Meetings

VIII. Announcements The next meeting will be December 1.

IX. Adjournment Motion by *Wolff*, second by *Johnson* to adjourn at 11:52 a.m. Carried.