



PO Box 7864  
Madison WI 53707-7864

## Wisconsin College Savings Program Board

T 608-264-7899  
F 608-266-7645  
edvest@ost.state.wi.us

---

### College Savings Program Board Investment Advisory Committee Meeting

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

**December 1, 2014 -- 10:00 a.m.**

#### Minutes

- I. Call to Order and Roll Call** at 10:12 a.m. (Ken Johnson, Chair)  
Present: Ken Johnson (by phone), Bill Oemichen, also Annoesjka West, Glenn Friedman, Paula Smith, Paul Zemsky (by phone), Kerry Alexander, Shirley Yang, Chris Lynch, and Jim DiUlio.

Only 2 of 4 members present. Rob Kieckhefer arrives at 10:35, quorum present.

- II. Agenda Approval and Public Posting Report** (Chair, staff) Meeting has been posted properly. Motion by Johnson second by Kieckhefer to approve agenda. Carried.

- III. Approval of Committee Meeting Minutes for August 18, 2014.** Not ready for this meeting.

- IV. Public Presentations:** none requested, no one present

#### V. Old Business

- A. **Third Quarter 2014 Investment Review** [Callan Associates] Annoesjka West presented Callan's Executive Summary, with mixed performance during the third quarter. GDP growth was up, but Europe is still struggling as well as Asia. The yield curve is flattening. (see the summary) She then reviewed the portfolios and underlying investments in the plans, for both assets and performance. There was a manager change at T Rowe Price, not likely to affect our position there. However, Bill Gross leaving Pimco is a concern we will discuss shortly, in light of continuing outflows from the Total Return Bond Fund. While trailing the benchmark, the fund's NAV has held up and valuations are similar to those of last summer. Johnson asked West for recommendations; she said that we have had this conversation in two previous meetings. Both TIAA-CREF and Voya will present replacements today, and it would make sense to make a move away from Pimco due to internal noise within that company.

- B. **Watch List, Recommendations** Nothing has triggered any quantitative watch criteria, but Pimco Total Return Fund remains for the other previous organizational issues..

## VI. New Business

A. **Proposed adjustments to asset allocations and underlying funds for Edvest and Tomorrow's Scholar plans**

*Glenn Friedman* presented the 2015 Edvest asset allocation recommendation. He reviewed the changes made for 2014, including adjustments within the bond funds and the addition of the Templeton and T Rowe Price fixed funds to the multifund portfolios. He is pleased with the results so far, along with the modestly lower annual returns of most underlying funds. Their research is comfortable with the same lineup going forward. The estimated tuition inflation is 4.44% vs. 4.29% last year, one of the slowest increases in many years.

Regarding Pimco Total Return, *Friedman* presents two possible alternatives for Edvest: Metropolitan West Total Return Bond Fund (MWTIX) and TIAA-CREF Bond Plus Fund (TIBFX). Both do not have Pimco's sector exposure to derivatives. The MetWest fund has larger allocations to Treasuries and mortgages while the TIAA-CREF Bond Plus fund has a larger focus on corporates. Both have lower fees than Pimco, 45 and 33 bps respectively, and well below the intermediate bond category average of 80+ bps. *Kieckhefer* asked how much cash these funds are holding. *DiUlio* replied that Morningstar reports about 11% or less a few months ago. *West* added the current number may be closer to 5%. Maturity would around the benchmark, about 5 years. She also added that the MetWest team has been together for many years managing in different environments. The team at TIAA-CREF has also done well, but the fund has not been open as long.

Asked for a recommendation, *West* said the MetWest fund has been included in all their searches. However the fee differential could be a factor, although both have lower fees than the Pimco fund. The committee discussed fund's portfolios, rankings, longevity, and keeping another outside manager. Motion by *Oemichen*, second by *Johnson* to replace the Pimco Total Return fund in Edvest with Metropolitan West Total Return Bond fund at the earliest time, following notice and related agreements. Carried 3-0.

This was the only recommended change to the Edvest plan for 2015.

*Paul Zemsky* provided an update on Voya's most recent news on the separation from their former parent company. He also highlighted the investment management teams. For 2015, Voya is proposing changes to the multifund portfolios to: increase equity exposure to the 0-4 age-based portfolio to capture more large cap; become more defensive in duration positioning with short term bonds and senior loans; increasing exposure to large cap and lessening mid and small cap equities; and also increasing exposure to emerging market equities and trimming global real estate exposure.

Other than the 0-4 age group moving from a 90:10 mix to 95:5, the remaining equity:fixed income ratios stay the same. (see the attachments) This shift does not affect participant fees. Their research on the return and volatility expectations are similar to last year, considering the bond environment.

*Zemsky* then detailed the allocation tweaks and underlying managers. *Voya* also recommends replacing Pimco Total Return Bond fund: within the multifund portfolios with a new Goldman Sachs fund, and for the standalone option replacing Pimco with the *Voya Intermediate Bond* fund. An additional standalone option, the *Voya Global Perspective* fund, is recommended due to its popularity with advisors.

The process of replacing the Pimco fund with the Goldman Sachs subadvised fund is complicated, since it will be a new offering. In addition to this Board approval, there are also approvals needed with *Voya's* Board and SEC filings. As an intermediate step, the Pimco assets will be held from December to February in the *Voya Intermediate Bond* fund until the approvals open the Goldman Sachs fund in February 2015.

The committee then discussed the proposed new Goldman fund. *Zemsky* said it will be structured as a subadvised fund so *Voya* has daily transparency of holdings and transactions. *Johnson* asked about the proposed initial assets. *Zemsky* replied the initial size will be around \$200 million, with Tomorrow's Scholar portion just under half with the remainder from DC retirement target funds. This was a request of DOA, *DiUlio* added, as part of the due diligence and proposed disclosure document preparation. Goldman's size and management depth is also a plus to consider this approach, *West* said.

The committee expressed some concern with moving to a startup fund. *Zemsky* and *Smith* said since this fund is still in the proposal and approval stage, there is no formal offering document. Callan and *Voya* will retrieve more information regarding Goldman's bond management team.

Motion by *Oemichen* to approve all the recommended changes to Tomorrow's Scholar plan for 2015 except the final move to the new Goldman Sachs subadvised fund from *Voya Intermediate Bond* fund, second by *Johnson*. Motion carried.

Motion by *Oemichen* to move the former Pimco multiasset portfolio money from the *Voya Intermediate Bond* fund to the new *Voya* fund subadvised by Goldman Sach, contingent on the committee's review of additional information and approval. Second by *Johnson*. Motion carried.

**B. Update on Edvest Bank CD Portfolio** – The placed certificates increased about \$1 million since the last meeting, now about 35% of the portfolio.

**C. Investment Policy Statement Document** – to be discussed at the Board meeting.

**VII. Discussion Items for Future Meetings** – number of investment portfolio choices

**VIII. Announcements** The next meeting will be February 16, 2015.

**IX. Adjournment** Adjourn at 12:10 p.m.