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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

September 20, 2016 -- 10:00 a.m.

Minutes

I. Call to Order and Roll Call at 10:05 a.m. (Rob Kieckhefer, Chair)

Present: In Rob Kieckhefer's absence, Bill Oemichen chairs the meeting. Also present: Michael Wolff, Derek Drummond, Annoesjka West, Paula Smith, Shirley Yang, Jeremy Thiessen, Paul Zemske, Aria Walfrand, Halvard Kvaale, Glenn Friedman, Josh Dennin, and Jim DiUlio.

II. Agenda Approval and Public Posting Report (Chair, staff) Meeting has been posted properly. Motion by Wolff, second by Drummond to accept. Carried.

III. Approval of Committee Meeting Minutes for May 24, 2016

Motion by Wolff, second by Drummond, all in favor. Minutes approved.

IV. Public Presentations: No advance requests, none present at the meeting

V. Old Business

First Quarter Investment Review. *Annoesjka West* reviewed market highlights for the quarter, including the Brexit activity. Refer to Callan's Executive Summary for the details. Some of the underlying investment she highlighted included the rebound of Voya Corporate Leaders, but also the performance of Columbia Limited Duration and the Clarion Real Estate Fund in the Tomorrow's Scholar plan. In the Edvest plan, the US Equity Active trailed this quarter and Templeton Global was crushed this quarter by their duration positioning, but it has not hit the three-year mark to trigger a watch yet.

VI. New Business

- A.** *Paul Zemske* and *Halvard Kvalle* from Voya then presented a deck discussing the current Tomorrow's Scholar investments on watch. They said the Large Cap Value is of the most concern of all 6 funds on watch. Discussion followed on the fund's components—higher

yielding securities were smaller parts of the portfolio, trying to get the stock selection right. *Zemske* is patient, but he said a decision should be made at the end of year or first quarter. The Columbia Limited Duration is a BBB-oriented fund, but its peer group is of higher quality. West asked if the benchmark is the stated benchmark? They continue to have confidence in the Multi-Manager Emerging Markets Equity as constructed, while the BlackRock Global Allocation is a wild card due to its design. As a very value-oriented fund, Templeton Foreign Equity takes big bets, and *Kvaale* said over a full market cycle it would perform. West asked why three standalone international/foreign funds, with the reply that advisors can aid the account owner with selection.

Motion by Wolff, second by Drummond to add Templeton Foreign Equity, BlackRock Global Allocation, and Voya Multi-Manager Emerging Markets Equity to the Watch List, and maintain watch on the remaining three funds. Carried.

- B.** *Shirley Yang* then introduced *Glenn Friedman* to detail an investment change in TIAA's California and Michigan 529 plans. The concept includes replacing some of the short-term bond and money market allocations with the Principal Plus insurance contract, for greater stability and lower participant fees. *Jeremy Thiessen* explained how using Principal Plus in the age-based tracks would decrease the weighted average fund fees. He added that Morningstar had inquired if TIAA was introducing the concept to all of their plans. Approximately \$225 million would be taken out of mutual funds and placed in the Principal Plus (funding agreement) contract. Currently, about \$150 million is standalone versions of Principal Plus in Edvest and Tomorrow's Scholar. Some questions were raised about the 4-year plus a day exit provision, as well as the concentration risk of so many dollars in one investment. *Drummond* was concerned about the opportunity cost in a rising interest environment. *Thiessen* said that the guarantee is capped at 3%, but the participant crediting rate could be higher. Transparency was another concern of the committee. Probability of this strategy to beat tuition inflation is another consideration.

The Committee agreed that further analysis would be necessary, including an evaluation from Callan Associates. Research of other states' 529 plans using this insured contract concept will also be done.

Also for future consideration, *Yang* asked to add Templeton's Global Bond fund to a general discussion item in the future.

- VII. Adjournment** Motion by Wolff second by Drummond to adjourn at 12:02 p.m. Carried.