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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

May 18, 2015 -- 10:00 a.m.

Minutes

I. Call to Order and Roll Call at 10:05 a.m. (Ken Johnson, Chair)
Present: Ken Johnson, Michael Wolff, Pat Sheehy (joins by phone 10:40), Annoesjka West, Paula Smith, Jeremy Thiessen, Shirley Yang, and Jim DiUlio.

II. Agenda Approval and Public Posting Report (Chair, staff) Meeting has been posted properly. Motion by *Wolff*, second by *Oemichen* to approve agenda. Approved by voice vote.

III. Approval of Committee Meeting Minutes for February 20, 2015 Motion by *Oemichen*, second by *Wolff*. Approved by voice vote.

IV. Public Presentations: none requested in advance, none present at meeting

V. Old Business

A. **First Quarter 2015 Investment Review [**Callan Associates] *Annoesjka West* began by comparing this first quarter with last year's. While weather was a factor, the stronger dollar certainly helped the economy. Job growth is up, consumer spending and confidence is also up. Non-US investment returns have come back strong, and only large cap value is the area with negative return. High yield bonds were the best performers.

She then went through the portfolios and underlying funds for each of the plans, identifying performance by sectors. *DiUlio* added that a conference last week, the president of the Kansas City Fed was optimistic and could see a quarter percent increase in interest rates by the end of the year. (Sheehy joins meeting at this point) *Wolff* asked about the effect of low energy prices, is there a positive effect? *West* responded that the savings that flow to consumers has not yet shown up in spending. *Thiessen* said there will be a point at which gas prices have an effect, but not yet.

West then shared some Callan research for the Columbia Corporate Limited Duration fund. She said fees for fixed income funds in a low interest periods show a greater effect. On a gross basis, the fund ranks well over 3, 5, or 7 years, but net of fees the lower duration really affects performance. When returns are only 2 or 5 percent, the fees are more dramatic than in equities with double digit returns. But, she added, fixed income often costs more to manage than equity funds. This Columbia fund had a bad year in 2014, but over time it has done well. This report is meant to show the impact of fees

B. **Watch List, Recommendations** *West* recalled the conversation of last quarter regarding placing funds on watch. Currently she still believes it is too early to make a call on Columbia, and since it is in the advisor plan, there is that added layer of the professional working with the client rather than self-selections. And the first three-year evaluation period won't come up until the end of 2015. While we are discussing three years of history, *Johnson* said that SWIB often looked at market cycle evaluation taking 5 to 7 years. *West* added that our decisions to replace Wells Small Cap and Pimco Total Return were not hasty or drawn out in her view. Callan does not recommend any fund for the Watch List this quarter.

VI. New Business

A. **Pending state ABLE legislation** The College Savings Plan Network (CSPN) is following the progress of legislation around the country, *DiUlio* reported, following Congress' action creating these accounts for disabled children and young adults. At this point, about a dozen states have passed legislation. In Wisconsin, there has been legislation introduced and DOA's preliminary calculation of annual operating costs would be about $300,000 for a number of years until account fees could make the program self-supporting. Revenue has also calculated the state tax impact of a program. The startup cost for states to implement these plans was underestimated by the national sponsors during the push to pass this law. *Oemichen* asked who would be operating the program, would it be College Savings? *DiUlio* replied that in any case, DOA's cap finance office will do the back end of investment and compliance—some states have located ABLE in a Family or Health agency or at the State Treasurer's Office. More details to be worked out, while the US Treasury and Social Security Administration work out the rules and reporting process.

B. **Edvest investment portfolio review –** *Jeremy Thiessen* reviewed previous conversations with the Committee and Board regarding the number of Edvest portfolios. He then compared Edvest with other national direct-sold plans; there are only four others with more choices. He then discussed glidepaths, feeling that our two tracks--moderate and more aggressive--were appropriate since they provide a choice. But the static multi-fund portfolios, five each in active and passive, could be a place to trim choices while still providing a range. The largest flows to the indexes are into the most aggressive portfolios—almost half—compared to less than 5% to the income. Similar patterns are also shown with the active portfolio.

The proposal is to combine the two most aggressive and the two most conservative portfolios in each version, eliminating 4 portfolios total. Committee members agreed in concept, *Oemichen* mentioned that consumers shouldn't have to face 'decision paralysis' and *Sheehy* asked if we need both active and passive choices. *West* replied that competitiveness may be a factor in keeping both varieties. Working the mapping process could provide some guidance. *Johnson* asked how the proposal would affect fees. *Thiessen* replied on the index side it would be about a basis point, but could be up to four points with the active portfolios. *Oemichen* said he agreed with *Sheehy* that we may also want to look at combining both versions.

Some discussion then moved to single funds, with *West* questioning portfolio choices for both the S&P 500 and Russell 3000. The Committee agreed that dropping the word 'growth' from the multifunds would be preferred—to label them just Conservative, Moderate, and Aggressive. *Yang* reviewed the timetable for the rest of

2015 in advance of scheduled investment changes that would take place in early 2016. *Thiessen* will prepare further work for the August meetings.

Wolff brought up the impact of eliminating/moving portfolios of existing account owners, unlike earlier fund changes of only the underlying investments. He suggested that any changes be formalized by the Committee and Board authorizing *DiUlio* or the DOA Secretary to amend the existing 2012 program management contract with TFI. This could be done simultaneously with the year-end asset allocation adjustments.

VII. Discussion Items for Future Committee Meetings

All agreed to resuming manager visits with the Committee. *Johnson* said from a due diligence standpoint it is good to visit their site periodically as well. *Yang* said the meetings could take many forms, for example a visit to New York to meet with multiple managers at TIAA-CREF or using video links. *Smith* said Voya's fixed income team is in Atlanta, but in New York often with the equity team and something could be arranged. DFA's offices are in Austin, but they have investment conferences in Chicago. Or we can go back to the rotation of managers of the larger positions visiting us in Wisconsin. Someone who is managing money should be on the agenda for each meeting, *Johnson* suggested. *West* added that Callan meets with all of the plans' underlying managers on a regular basis, even those with smaller AUM.

VIII. Announcements The next meeting will be August 17. Some discussion took place regarding meeting days, as Sunday travel becoming more difficult to arrange.

IX. Adjournment Motion by *Wolff*, second by *Oemichen* to adjourn at 11:30 a.m. Carried.